

**MONITORING COUNTRY PROGRESS
IN CENTRAL AND EASTERN EUROPE
& THE NEW INDEPENDENT STATES**

USAID/ENI
Bureau for Europe & the New Independent States
U.S. Agency for International Development

Office of the Coordinator
for East European Assistance
Department of State

Office of the Coordinator
of U.S. Assistance To the New Independent States
Department of State

September 1997

EXECUTIVE SUMMARY

I. Introduction

The programs of U.S. assistance to Central and Eastern Europe (CEE) and to the New Independent States (NIS) of the former Soviet Union have been envisioned, since their inception, as short-term programs to jump start the countries of this strategically critical region on their way to political and economic transitions. It is essential, therefore, to monitor not only the impact of the U.S. assistance programs, but also the progress of the countries more generally to determine whether continued assistance is necessary or justified. This paper presents USAID/ENI's system for monitoring country progress with a focus on developing criteria towards graduation from USAID assistance.

II. Methodology

Country progress is analyzed in a sequence of steps for twenty-five countries of the region. First, we look at the progress towards economic reforms and democratization. The promotion of both are the two pillars of USAID's program in the region. Progress on both fronts must reach a certain threshold before we can begin to consider graduation.

Next, we look at indications of sustainability; that is, macroeconomic performance and social conditions. Economic reforms need to translate into solid macroeconomic performance if they are to be sustained. Trends in social conditions need to be tracked as well to give us a pulse on the possibilities of economic and democratic "reform fatigue" as well as fiscal sustainability.

For most indicators, proposed graduation benchmarks are assigned. Failure of a country to meet a benchmark is intended to signal a "yellow flag" in the mind of the analyst; an aspect that may need to be examined more thoroughly if graduation is being considered on the basis of other evidence.

The indicators are drawn from standard, well-established data sources that are external to USAID. The primary sources are the EBRD, Freedom House, and the World Bank. Supplemental sources include the IMF, and the UNDP, and the Bureau of Census.

An important step of the process is the holding of annual reviews--one for CEE, one for the NIS--of the data prior to the spring USAID program reviews. These reviews are to serve as a reality check on the data and our interpretation of it.

III. Analysis

The *Summary Table* below provides an overall picture of the status of the economic policy reforms and democratic freedoms in 1996. *Figure 1* portrays these data in part to help ascertain how and to what extent economic policy and democratization might be linked.

Salient observations. As revealed in *Figure 1*, there seem to be three groups of countries differentiated by progress towards economic and democratic reforms. The Northern Tier countries, less Slovakia, consist of one group, and are substantially out front, particularly in democratic reforms. The laggards appear to consist of six countries: the Central Asian Republics (less the Kyrgyz Republic), Belarus, and Azerbaijan. The middle group is the largest and includes the Southern Tier CEE countries, Russia, Ukraine, and other NIS. In general, this middle group may be where USAID can realize the greatest return on its investment; where needs are great, and the quality of partnership (with exceptions) is relatively high.

The spread in progress between the three groups is more evident in democratization than it is in economic reforms. Six of the Northern Tier countries now have democratic standards roughly comparable to many Western democracies. Two Central Asian Republics rank among the least democratic worldwide.

Linked to this trend is the observation that economic policy reforms in the region, relative to the standards in the industrial market economies, have far to go, even in the Northern Tier countries.

Figure 1 also reveals a close correspondence between economic and political liberalism. The trend line highlights that progress in both reform areas tend to go hand-in-hand. Progress in both areas is the most advanced in the Czech Republic, Hungary, and Poland. Turkmenistan, Tajikistan, Azerbaijan, Belarus, and Uzbekistan, rank towards the bottom in both areas.

Only Belarus experienced a net deterioration in economic policy reforms from 1994 to 1996. In general, progress in economic reforms during this period has been most evident among those countries at an intermediate stage in the transition process. Countries at a more advanced transition stage have tended to make less progress in large part because the remaining reforms are the most difficult and take the most time to implement and enforce.

Five countries experienced a net deterioration in both political and civil liberties from 1991 to 1996. All are NIS: Uzbekistan, Turkmenistan, Tajikistan, Kazakstan, and Belarus.

Many contrasts among the transition economies in terms of macroeconomic performance and social conditions mirror the often-times stark differences in economic reforms and democratization.

These include:

- (a) Robust economic growth is occurring in the Northern Tier CEE countries (well over four percent since 1994). The Southern Tier countries have experienced positive economic growth since 1993, though this growth rate has slowed considerably in 1996 and 1997. For the NIS, 1997 may be the first transition year of positive economic growth.
- (b) In CEE, only the economies of Slovenia and Bulgaria had a private sector less than fifty percent of GDP in 1996. In the NIS, only the economy of Russia had a private sector greater than fifty percent of GDP.
- (c) Income inequality and poverty tend to be much greater in the NIS than in CEE; the poverty rate may be close to forty percent in the NIS relative to roughly ten percent in the Northern Tier CEE countries.
- (d) Infant mortality rates are significantly lower in the Northern Tier countries than in the Southern Tier and the NIS. Moreover, Northern Tier rates have fallen the most overall from 1991-1995; progress is negligible on balance in the Southern Tier and the NIS.

Finally, an application of the decision tree methodology in concert with the proposed graduation benchmarks leads to the conclusion that there is likely a handful of current leading contenders for graduation from USAID assistance in the Northern Tier CEE countries.

IV. Concluding Remarks

Making appropriate decisions on the magnitude and duration of U.S. assistance to countries of the ENI region requires consideration of much more than country progress and need. Other key factors include:

- (a) the strategic importance of the country to the U.S.;
- (b) the importance of the recipient country to U.S. citizens;
- (c) the effectiveness of particular assistance activities.

The first two factors are considered by USAID and by the State Department-based Coordinators for U.S. Assistance to both CEE and the NIS in setting annual assistance levels for each country.

The effectiveness of the assistance is assessed through the annual collection of data on established performance targets and through occasional project evaluations and sectoral impact evaluations.

Within this broader policy context, USAID will collect, analyze, and report on the country performance indicators semi-annually. These data will be provided to the State Department-based Coordinators for U.S. Assistance to CEE and the NIS and discussed with them, along with assessments of the other three factors listed above, when country planning levels are determined each winter. Particular country levels will likely be shaped in part by whether a given country falls into one of three categories, based on the analysis of country performance indicators:

- (a) Countries ranked near the top of the list are obvious candidates for earlier "graduation".
- (b) Countries near the bottom of the list may fall into one of three contrasting categories: (i) those where assistance is least likely to be effective, in which case it may make sense to close those programs down altogether or to keep highly targeted funding at minimal levels until their commitment to reform increases; (ii) those where reform now appears likely but requires greater resources; or (iii) those which possess characteristics that match well with the Agency's priorities for sustainable development programs.
- (c) Countries in the middle of the list are likely candidates for continuing programs through existing funding mechanisms, as long as the assistance is effective and Congress continues to appropriate funds for this purpose. From these countries we would expect to see the next group of candidates to graduate.

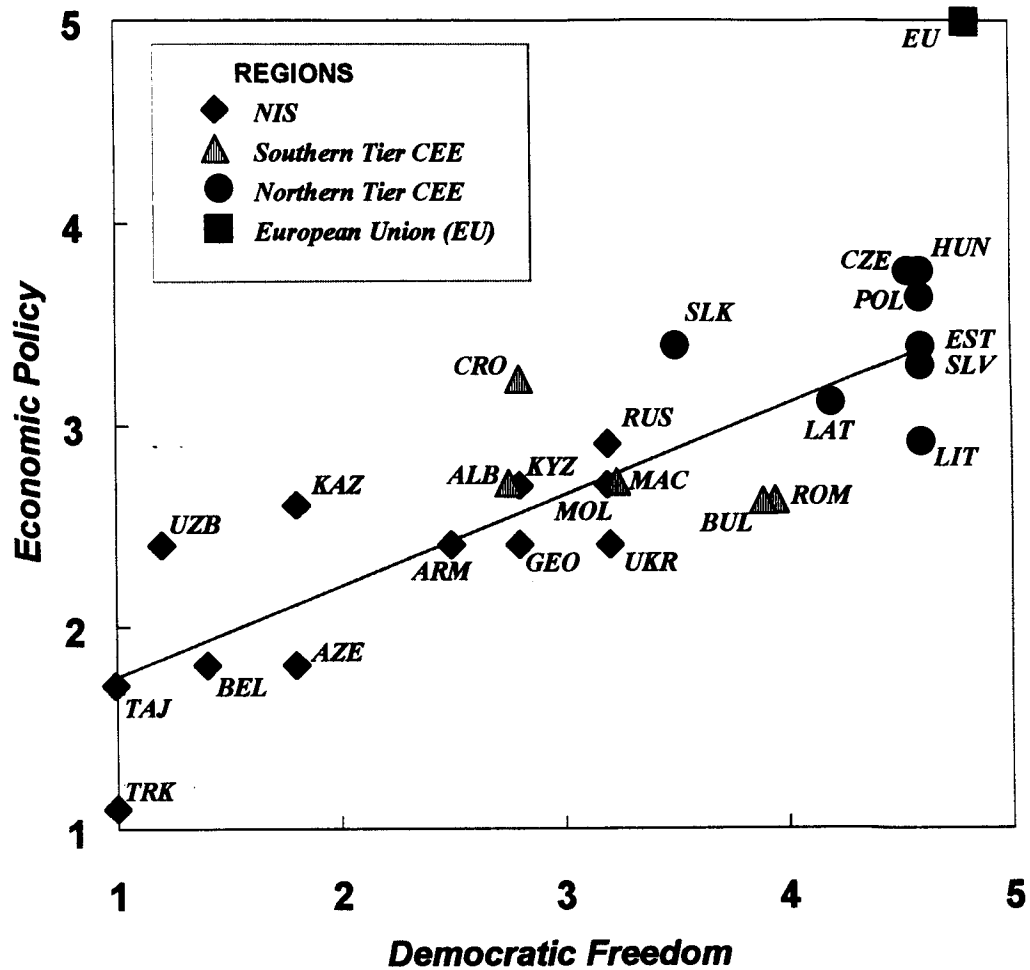
Finally, country progress indicators can play a role in shaping not just the duration and size of USAID's program in a particular country, but, in broad strokes, the nature of the program as well. Are the mission's basic priorities appropriate?

Summary Table. 1996 Economic Policy Reforms and Democratic Freedoms in CEE & NIS¹

| Economic Policy | | | Democratic Freedoms | | |
|-----------------|---------------|----------------|---------------------|---------------|----------------|
| | <u>Rating</u> | <u>Ranking</u> | | <u>Rating</u> | <u>Ranking</u> |
| Czech Rep. | 3.7 | 1 | Czech Rep. | 4.6 | 1 |
| Hungary | 3.7 | 1 | Hungary | 4.6 | 1 |
| Poland | 3.6 | 3 | Poland | 4.6 | 1 |
| Estonia | 3.4 | 4 | Slovenia | 4.6 | 1 |
| Slovak Rep. | 3.4 | 4 | Lithuania | 4.6 | 1 |
| Slovenia | 3.3 | 6 | Estonia | 4.6 | 1 |
| Croatia | 3.2 | 7 | Latvia | 4.2 | 7 |
| Latvia | 3.1 | 8 | Bulgaria | 3.9 | 8 |
| Lithuania | 2.9 | 9 | Romania | 3.9 | 8 |
| Russia | 2.9 | 9 | Slovak Rep. | 3.5 | 10 |
| Albania | 2.7 | 11 | Macedonia | 3.2 | 11 |
| Macedonia | 2.7 | 11 | Russia | 3.2 | 11 |
| Moldova | 2.7 | 11 | Ukraine | 3.2 | 11 |
| Kyrgyz Rep. | 2.7 | 11 | Moldova | 3.2 | 11 |
| Bulgaria | 2.6 | 15 | Albania | 2.8 | 15 |
| Romania | 2.6 | 15 | Croatia | 2.8 | 15 |
| Kazakstan | 2.6 | 15 | Kyrgyz Rep. | 2.8 | 15 |
| Armenia | 2.4 | 18 | Georgia | 2.8 | 15 |
| Georgia | 2.4 | 18 | Armenia | 2.5 | 19 |
| Ukraine | 2.4 | 18 | Kazakstan | 1.8 | 20 |
| Uzbekistan | 2.4 | 18 | Azerbaijan | 1.8 | 20 |
| Belarus | 1.8 | 22 | Belarus | 1.4 | 22 |
| Azerbaijan | 1.8 | 22 | Uzbekistan | 1.2 | 23 |
| Tajikistan | 1.7 | 24 | Tajikistan | 1.0 | 24 |
| Turkmenistan | 1.1 | 25 | Turkmenistan | 1.0 | 24 |
| CEE & NIS | 2.8 | | | 3.2 | |
| N.Tier CEE | 3.5 | | | 4.5 | |
| S.Tier CEE | 2.7 | | | 3.7 | |
| NIS | 2.6 | | | 2.8 | |
| EU | 5.0 | | | 4.8 | |
| OECD | -- | | | 4.6 | |

¹Economic Policy ratings are from EBRD, *Transition Report 1996* (November 1996); democracy ratings are from Freedom House, *Nations in Transit 1997* (April 1997), and *Freedom in the World, 1996-1997*. On a 1-5 scale with 5 being the most advanced. Bosnia-Herzegovina rates a "2.1" on democratic freedoms; Yugoslavia (Serbia & Montenegro), "1.4". Regional averages are population-weighted. Elaboration of the method is provided in Appendix I.

Figure 1
Economic Policy Reforms and Democratic
Freedom in CEE and the NIS



Note: Ratings based on 1-5 scale with 5 representing most advanced
Sources: EBRD (1996), Freedom House (1997)

I. Introduction

The programs of U.S. assistance to Central and Eastern Europe (CEE) and to the New Independent States (NIS) of the former Soviet Union have been envisioned, since their inception, as short-term programs to jump start the countries of this strategically critical region on their way to political and economic transitions. The objective is to help move these countries far enough along the road to becoming market-based democracies that they can complete the journey themselves.

It is, therefore, essential to monitor both the impact of the U.S. assistance programs themselves to maximize their effectiveness (*program impact monitoring*), as well as the progress of the countries more generally to determine whether continued assistance is necessary or justified (*country progress monitoring*). Program impact monitoring is done through a system of setting results targets and annually monitoring progress toward them and through less frequent special field evaluations. This paper presents USAID/ENI's system for monitoring country progress in twenty-five countries of the region.¹

Country progress monitoring is done in part to determine whether the assistance program can be terminated either because: (a) the country is well launched on its way to a successful transition and cessation of assistance will no longer jeopardize that transition (i.e., graduation); or (b) the country is making so little progress that significant resources will have little impact. Monitoring is done semi-annually and results are shared with the State Department-based Coordinators for U.S. Assistance to each of the two regions. The Coordinators are charged with, among other things, determining the magnitude and duration of these transition assistance programs.

Section II below highlights the methodology. This is followed in Section III by analyses in each of the major areas examined: (a) economic policy reforms; (b) democratization; (c) macro-economic performance; and (d) social conditions. Section IV concludes. Appendix I elaborates on the rating schemes of the economic policy reform and democratization indicators. Appendix II addresses in preliminary fashion an important part of the overall picture which does not emerge from the official statistics; namely, trends in unofficial economic activity, and some implications. Appendix III provides a data set of available comparable indicators for select countries outside the region, and some comparative analysis with the transition economies.

¹Analyses of Bosnia-Herzegovina and Yugoslavia (Serbia & Montenegro) will be included as data become available.

II. Methodology

Market-oriented reforms and democratization are the two pillars of USAID's program in the ENI region.² The challenge of this analysis thus is essentially to make assessments of the progress on both fronts, with a particular focus on the sustainability of reforms.

Country progress is hence analyzed in a sequence of steps drawing from standard, well-established data sources that are external to USAID. First, we look at the progress towards economic reforms and democratization. Progress on both fronts must reach a certain threshold before we can begin to consider graduation.

Economic policy reforms are assessed by drawing from EBRD's rating scheme of nine transition policy indicators, and supplemented by a similar scheme from Freedom House. Progress in democratic freedoms is determined from Freedom House's rating of civil liberties and political rights, and from an initial effort on its part to further disaggregate the measurement of such freedoms.

Next, we look at indications of sustainability. Economic reforms need to translate into solid macroeconomic performance. If the implementation of economic policies is determined to be sufficient in a particular country and yet the economy is performing poorly, then they are not there yet. We might expect improved performance to kick in with a lag. But evidence of good macroeconomic performance would give us more confidence that the reformed economy is self-sustaining.

Furthermore, it is important to underscore that acceptable progress in the reforms must precede good macroeconomic performance. A cross-country snapshot might show one economy outperforming another in part because painful reforms have been avoided in the former. Yet, this is hardly sustainable.

The macroeconomic performance indicators also provide a check on the comprehensiveness of the economic reform indicators. For example, fiscal reform--or, more broadly, the role of the state in the provision of social services--is likely not adequately

²USAID assistance to ENI countries is funded through the Support for East European Democracy Act (SEED) and the Freedom Support Act (FSA), the latter applying to the NIS. The SEED Act has two goals: the promotion of democracy and a market-oriented economy. The FSA objectives are broader in scope, including the transition goals of the SEED Act as well as those focused more directly on humanitarian, social, environmental, and trade and investment conditions.

addressed in the current mix of economic reform indicators. Yet, insufficient fiscal reform is likely to surface in the form of bloated fiscal deficits, and this is being tracked as an economic performance indicator.

Another means to measure the sustainability of both economic and political reforms is to assess trends in social conditions. This is largely the concern of "reform fatigue." The populace may not continue to support difficult reforms if the standard of living for many declines drastically. It may not be good enough, in other words, to have sound economic policies in place, solid macroeconomic performance, and extensive political and civil liberties, if a significant proportion of the population is losing out on balance.

Trends in social conditions also link to fiscal sustainability. Deteriorating social conditions may have a significant impact on social expenditures. Similarly, demographic changes may have substantial repercussions on pension systems.

For most indicators, proposed graduation benchmarks are assigned. Some are more arbitrary than others and need to be held to debate. Should a country fail to meet a benchmark, this should signal a "yellow flag" in the mind of the analyst; an aspect that may need to be examined more thoroughly if graduation is being considered on the basis of other evidence. The number of benchmarks a country needs to achieve should vary according to context.

An important step of the process is the holding of annual reviews--one for CEE, one for the NIS--with area specialists from U.S. government agencies prior to USAID's spring program review. Soliciting such expert opinion serves as a reality check on the data and our interpretation of it.

Finally, it merits explicitly recognizing that what is occurring in the region is unprecedented, and that there is little if any theoretical and/or empirical basis for devising precise thresholds of reform sustainability. Further, it is reasonable to assume that there is more than one acceptable transition route, or, what may amount to the same, many possible varieties of sustainable market-oriented democracies. This exercise, in short, is likely to be as much art as it is science, and it is important to place the results in this context.

III. Analysis

A. Economic Policy Reforms

Progress towards economic policy reforms is primarily assessed

from indicators drawn from the EBRD's annual *Transition Report*.³ Sufficient progress must entail both an adequate threshold of reform as well as a favorable trend over time; that is, no significant policy backsliding.

Nine indicators are taken directly from EBRD's *Transition Report 1996* (November 1996) and compared with comparable indicators from EBRD's previous two annual reports:

- (a) price liberalization;
- (b) trade and foreign exchange reforms;
- (c) small-scale privatization;
- (d) large-scale privatization;
- (e) enterprise restructuring policy;
- (f) banking reform;
- (g) non-bank financial reforms;
- (h) competition policy; and
- (i) investment-related legal reforms.

The indicators are measured on a one-to-five scale.⁴ A "five" represents standards and performance norms typical of advanced industrial economies. In general, depending on the particular indicator, a "3" or a "4" may very well be the threshold that we seek. Descriptions of the rating categories are provided in *Appendix I*.

These indicators focus on critical economic reform aspects of liberalization and institution-building in the transition process. Such reforms provide much of the overall enabling environment that is required for the emergence of a vibrant and sustainable market economy. While we review the reforms in stages below, it is important to recognize the existence of

³EBRD's policy indicators are published in the annual November report; the *Transition Report Update* in the spring revises only the macroeconomic data.

⁴In the 1995 and 1996 reports, the EBRD differentiates between a "4" and a "4*" to signify a division of the initial "4" category (of the 1994 report) into a lower and upper range, respectively. For simplicity, their "4*" becomes our "5".

strong complementarities among them all, and the possibilities for synergism that derive from implementation of the total policy package. The other side to this is the possibility that insufficient progress in one reform aspect may undermine the potential gains from progress of another.

First Round Reforms. Following EBRD's lead, we group these indicators according to three stages in the reform process. The first round reforms consist of liberalization of prices, external trade and currency arrangements, and privatization of small-scale units.

Price liberalization focuses on the decontrolling of wages and product market prices, including key infrastructure products such as utilities and energy, and the phasing out of state procurement at non-market prices.⁵ *Trade and foreign exchange reforms* focus on the removal of trade restrictions (export tariffs, quantitative and administrative import and export restrictions, membership in the WTO), and improving access to foreign exchange (current and capital account convertibility). *Small-scale privatization* includes small firms, small farms and plots of land, and housing.

Alongside the growth of new firms, privatization is an essential aspect towards restructuring the economy into one that is private-sector driven. Price liberalization provides the appropriate incentives through market-based prices to better maximize efficiency. Trade and foreign exchange reforms provide further discipline for the private sector through global competition, as well as providing domestic firms with a greater capacity to compete.

In many respects, these first round reforms, which require relatively little institution building, have been the easiest. In fact, in CEE they have generally been adopted rapidly and quite thoroughly. By mid-1995, arguably all CEE countries but Bulgaria and Romania had advanced significantly towards achieving these reforms. Moreover, most Northern Tier countries have achieved standards in small-scale privatization and trade and foreign exchange systems that are comparable to those of the advanced industrial economies. Among the NIS, in contrast, perhaps only the Kyrgyz Republic and Russia have progressed sufficiently in this domain. Table 1 below shows the status of these reforms as of mid-1996.⁶ Appendix I describes the rating

⁵Interest rate liberalization is monitored in EBRD's banking reform indicator.

⁶EBRD's forthcoming *Transition Report* (November 1997) will likely update the progress of such reforms through August 1997.

categories.

Second Round Reforms. These reforms focus on large-scale privatization and enterprise restructuring. Measuring progress in *large-scale privatization* includes assessing the extent of the transfer of assets to the private sector, but also the extent of outside ownership and effective corporate governance of such entities. *Enterprise restructuring reforms* address effective corporate governance in large part through government actions to tighten credit and subsidy policy at the firm level, enforce bankruptcy legislation, and break up dominant firms. Such reforms, in other words, provide some of the financial discipline needed for vibrant growth of the private sector.

Not surprisingly, progress towards these reforms has been slower than that of the first round reforms in no small part because they require more preparation to build political consensus as well as to create the infrastructure to implement them. In fact, as highlighted in *Table 2*, it may be that only the Czech Republic, Hungary, and Estonia have progressed sufficiently in these regards, though the Slovak Republic, Slovenia, Poland, Croatia, Lithuania, and Latvia are not far behind.

Third Round Reforms. These reforms are the most challenging, and progress is least evident in this domain. The focus here is on banking reform, private non-bank financial institutions, competition policy and investment-related legal reforms. *Banking reform* includes progress towards the establishment of bank solvency, well-functioning bank competition coupled with interest rate liberalization, financial deepening and extensiveness of private sector lending, and effective prudential supervision, with movement of laws and regulations towards BIS standards.

Non-bank financial reforms include the development and deepening of securities exchanges, investment funds, private insurance and pensions funds, leasing companies, and associated regulatory framework, with movement of laws and regulations towards IOSCO standards.

The financial system undergirds the market economy. The private sector cannot grow and develop without a sound financial sector. It provides the capital to grow. It provides the discipline towards good corporate governance. Nor can there exist a stable macroeconomic framework without a sound financial system, given its importance in overall monetary management. Moreover, an unstable financial sector can lead to crisis, and, in fact, in many transition economies it has. It starts with the banks, and ripples throughout the economy.

Competition policy focuses on the development of legislation and institutions to facilitate the entry of firms, existing or

potential, into existing markets. This includes the promotion of a competitive environment through enforcement actions to reduce the abuse of market power by dominant (or non-competitive) firms. The more competitive is the market structure, the greater is the efficiency of the firm.

Finally, *investment-related legal reforms* include the development of clear investment laws which do not discriminate between domestic and foreign investors, and which are well administered and supported judicially.

As highlighted in Table 3, it may be that no country of ENI has yet adequately restructured in this third round set of reforms. While the Czech Republic, Hungary, and Poland have gone the farthest, it is likely that even in these three countries, more progress is needed. The Slovak Republic and Estonia are not far behind the leaders; Slovenia, Latvia, and Croatia follow in a third tier. Overall, reforms in competition policy lag the most while investment-related legal reforms show the most progress.

Economic Reform Ratings Compared: EBRD vs. Freedom House

Table 4 provides a comparison of EBRD's rating of economic reforms with a more recent effort by Freedom House in its *Nations in Transit 1997* (April 1997). Freedom House assesses economic reform by weighing two broad aspects: (1) progress towards privatization and reform of the state sector; and (2) the development of market-economy institutions, with a focus on property rights, a framework for competition, and fiscal, financial, and energy sector reforms.⁷

Three salient observations emerge from the comparison. First, the leaders and laggards in both schemes generally coincide. The Czech Republic, Hungary, Poland, Estonia, and Slovenia are at the top; Turkmenistan, Tajikistan, Uzbekistan, Azerbaijan, and Belarus have the furthest yet to go by both accounts. Second, the gap between the leaders (that is, the Northern Tier countries of CEE with the exception of Slovakia) and the rest is greater according to Freedom House. Finally, in contrast to the EBRD findings, Freedom House finds that the Southern Tier countries of CEE lag behind the NIS in economic reforms on balance.

The differences in results may be attributed largely to two reasons. First, the emphases on the kinds of reforms differ some between the two schemes. Freedom House places greater emphasis on privatization. Romania, for example, may score lower and Russia higher because of this. Secondly, Freedom House's

⁷Elaboration is given in Appendix I.

assessment is more current. This likely explains why Bulgaria lags much more according to Freedom House, and, more generally, may reflect more accurately the relative backsliding that occurred in much of the Southern Tier through 1996.

Economic Policy Backsliding?

In addition to ascertaining the status or level of the reforms, it is important to examine the trends over time. Are the economic reforms proceeding on track? Table 5 below shows the change in economic policy reforms from 1994 to August 1996 according to EBRD measures. In sum, only Belarus experienced a net deterioration in economic policy reforms over this period. While Romania, Bulgaria, and the Kyrgyz Republic witnessed retrogression in some economic reform areas, this backsliding was more than offset by progress in other economic reforms.

In general, progress in economic reforms during this period has been most evident among those countries at an intermediate stage in the transition process. This includes Albania and Macedonia in CEE, and Georgia, Armenia, Ukraine, Kazakstan, Moldova, and Russia in the NIS.⁸ Countries at a more advanced transition stage--including Hungary, Poland, the Czech Republic, Slovenia, the Slovak Republic, and Lithuania--tended to make less progress in large part because the remaining reforms are the most difficult and take the most time to implement and enforce.

⁸Evidence of backsliding, particularly in Albania and probably Ukraine, can be expected from EBRD's forthcoming update.

Table 1. First Round Economic Policy Reforms¹

| | Small-scale Privatization | Price Liberalization | Trade & Foreign Exchange | Average |
|-------------------------|------------------------------|-------------------------|--------------------------------|---------|
| Czech Rep. | 5 | 3 | 5 | 4.3 |
| Hungary | 5 | 3 | 5 | 4.3 |
| Slovak Rep. | 5 | 3 | 5 | 4.3 |
| Slovenia | 5 | 3 | 5 | 4.3 |
| Poland | 5 | 3 | 5 | 4.3 |
| Estonia | 5 | 3 | 4 | 4.0 |
| Croatia | 5 | 3 | 4 | 4.0 |
| Albania | 4 | 3 | 4 | 3.7 |
| Latvia | 4 | 3 | 4 | 3.7 |
| Lithuania | 4 | 3 | 4 | 3.7 |
| Macedonia | 4 | 3 | 4 | 3.7 |
| Kyrgyz Rep. | 4 | 3 | 4 | 3.7 |
| Russia | 4 | 3 | 4 | 3.7 |
| Armenia | 3 | 3 | 4 | 3.3 |
| Moldova | 3 | 3 | 4 | 3.3 |
| Georgia | 4 | 3 | 3 | 3.3 |
| Kazakstan | 3 | 3 | 4 | 3.3 |
| Romania | 3 | 3 | 3 | 3.0 |
| Bulgaria | 3 | 2 | 4 | 3.0 |
| Ukraine | 3 | 3 | 3 | 3.0 |
| Uzbekistan | 3 | 3 | 2 | 2.7 |
| Azerbaijan | 2 | 3 | 2 | 2.3 |
| Belarus | 2 | 3 | 2 | 2.3 |
| Tajikistan | 2 | 3 | 2 | 2.3 |
| Turkmenistan | 1 | 2 | 1 | 1.3 |
| CEE & NIS | 3.7 | 3.0 | 3.7 | 3.5 |
| N.Tier CEE | 4.9 | 3.0 | 4.9 | 4.2 |
| S.Tier CEE | 3.4 | 2.8 | 3.5 | 3.2 |
| NIS | 3.4 | 3.0 | 3.4 | 3.3 |
| Industrial Countries | 5 | 5 | 5 | 5 |
| Benchmarks | 4 | 3 | 4 | 3.7 |

¹EBRD, *Transition Report 1996* (November 1996). Descriptions of the rating categories are provided in *Appendix I*. On a 1-5 scale with 5 being the most advanced. All multi-country averages in this report are population-weighted.

Table 2. Second Round Economic Policy Reforms¹

| | Large-scale Privatization | Enterprise Restructuring | Average |
|-------------------------|------------------------------|-----------------------------|---------|
| Czech Rep. | 4 | 3 | 3.5 |
| Hungary | 4 | 3 | 3.5 |
| Estonia | 4 | 3 | 3.5 |
| Slovak Rep. | 3 | 3 | 3.0 |
| Slovenia | 3 | 3 | 3.0 |
| Poland | 3 | 3 | 3.0 |
| Croatia | 3 | 3 | 3.0 |
| Lithuania | 3 | 3 | 3.0 |
| Latvia | 3 | 3 | 3.0 |
| Macedonia | 3 | 2 | 2.5 |
| Romania | 3 | 2 | 2.5 |
| Armenia | 3 | 2 | 2.5 |
| Georgia | 3 | 2 | 2.5 |
| Kazakhstan | 3 | 2 | 2.5 |
| Kyrgyz Rep. | 3 | 2 | 2.5 |
| Moldova | 3 | 2 | 2.5 |
| Russia | 3 | 2 | 2.5 |
| Uzbekistan | 3 | 2 | 2.5 |
| Albania | 2 | 2 | 2.0 |
| Bulgaria | 2 | 2 | 2.0 |
| Ukraine | 2 | 2 | 2.0 |
| Tajikistan | 2 | 1 | 1.5 |
| Azerbaijan | 1 | 2 | 1.5 |
| Belarus | 1 | 2 | 1.5 |
| Turkmenistan | 1 | 1 | 1.0 |
| CEE & NIS | 2.8 | 2.2 | 2.5 |
| N.Tier CEE | 3.3 | 3.0 | 3.1 |
| S.Tier CEE | 2.7 | 2.1 | 2.4 |
| NIS | 2.6 | 2.0 | 2.3 |
| Industrial Countries | 5 | 5 | 5 |
| Benchmarks | 4 | 3 | 3.5 |

¹EBRD, *Transition Report 1996* (November 1996). Descriptions of the rating categories are provided in Appendix I.

Table 3. Third Round Economic Policy Reforms¹

| | Competition Policy | Bank Reforms | Non-Bank Financial Reforms | Legal Reforms | Average |
|-------------------------|-----------------------|-----------------|----------------------------------|------------------|---------|
| Czech Rep. | 3 | 3 | 3 | 4 (4 5) | 3.3 |
| Hungary | 3 | 3 | 3 | 4 (5 4) | 3.3 |
| Poland | 3 | 3 | 3 | 4 (3 4) | 3.3 |
| Slovak Rep. | 3 | 3 | 3 | 3 (3 4) | 3.0 |
| Estonia | 3 | 3 | 2 | 4 (4 5) | 3.0 |
| Slovenia | 2 | 3 | 3 | 3 (2 5) | 2.8 |
| Latvia | 2 | 3 | 2 | 4 (5 3) | 2.8 |
| Croatia | 2 | 3 | 2 | 4 (4 5) | 2.8 |
| Bulgaria | 2 | 2 | 2 | 4 (4 4) | 2.5 |
| Russia | 2 | 2 | 3 | 3 (5 2) | 2.5 |
| Lithuania | 2 | 3 | 2 | 2 (2 2) | 2.3 |
| Romania | 1 | 3 | 2 | 3 (4 3) | 2.3 |
| Albania | 2 | 2 | 2 | 3 (5 1) | 2.3 |
| Moldova | 2 | 2 | 2 | 3 (3 3) | 2.3 |
| Ukraine | 2 | 2 | 2 | 3 (2 4) | 2.3 |
| Uzbekistan | 2 | 2 | 2 | 3 (5 2) | 2.3 |
| Macedonia | 1 | 3 | 1 | 3 (5 2) | 2.0 |
| Kazakstan | 2 | 2 | 2 | 2 (2 2) | 2.0 |
| Kyrgyz Rep. | 2 | 2 | 2 | 2 (3 2) | 2.0 |
| Armenia | 1 | 2 | 1 | 3 (4 3) | 1.8 |
| Georgia | 2 | 2 | 1 | 2 (2 2) | 1.8 |
| Azerbaijan | 1 | 2 | 1 | 2 (2 2) | 1.5 |
| Belarus | 2 | 1 | 2 | 1 (2 1) | 1.5 |
| Tajikistan | 1 | 1 | 1 | 2 (2 2) | 1.3 |
| Turkmenistan | 1 | 1 | 1 | 1 (1 1) | 1.0 |
| CEE & NIS | 2.1 | 2.2 | 2.5 | 3.0 | 2.5 |
| N.Tier CEE | 2.9 | 3.0 | 2.9 | 3.8 | 3.2 |
| S.Tier CEE | 1.4 | 2.7 | 1.9 | 3.3 | 2.4 |
| NIS | 1.9 | 1.9 | 2.4 | 2.8 | 2.3 |
| Industrial Countries | 5 | 5 | 5 | 5 | 5 |
| Benchmarks | 4 | 3 | 4 | 4 | 3.8 |

¹EBRD, *Transition Report 1996* (November 1996). Descriptions of the rating categories are provided in Appendix I. The rating of legal reforms to foster investment is subdivided (in parentheses) into extensiveness and effectiveness respectively.

Table 4. *Economic Reforms: EBRD & Freedom House Ratings Compared¹*

| EBRD (Nov. 1996) | | | Freedom House (April 1997) | | |
|------------------|--------|---------|----------------------------|--------|---------|
| | Rating | Ranking | | Rating | Ranking |
| Czech Rep. | 3.7 | 1 | Hungary | 4.5 | 1 |
| Hungary | 3.7 | 1 | Czech Rep. | 4.3 | 2 |
| Poland | 3.6 | 3 | Poland | 4.2 | 3 |
| Estonia | 3.4 | 4 | Estonia | 4.1 | 4 |
| Slovak Rep. | 3.4 | 4 | Slovenia | 4.0 | 5 |
| Slovenia | 3.3 | 6 | Latvia | 3.9 | 6 |
| Croatia | 3.2 | 7 | Lithuania | 3.9 | 6 |
| Latvia | 3.1 | 8 | Slovak Rep. | 3.3 | 8 |
| Lithuania | 2.9 | 9 | Russia | 3.2 | 9 |
| Russia | 2.9 | 9 | Kyrgyz Rep. | 3.0 | 10 |
| Albania | 2.7 | 11 | Croatia | 2.9 | 11 |
| Macedonia | 2.7 | 11 | Albania | 2.8 | 12 |
| Moldova | 2.7 | 11 | Armenia | 2.8 | 12 |
| Kyrgyz Rep. | 2.7 | 11 | Moldova | 2.8 | 12 |
| Bulgaria | 2.6 | 15 | Georgia | 2.7 | 15 |
| Romania | 2.6 | 15 | Ukraine | 2.6 | 16 |
| Kazakstan | 2.6 | 15 | Kazakstan | 2.6 | 16 |
| Armenia | 2.4 | 18 | Macedonia | 2.5 | 18 |
| Georgia | 2.4 | 18 | Romania | 2.4 | 19 |
| Ukraine | 2.4 | 18 | Azerbaijan | 2.0 | 20 |
| Uzbekistan | 2.4 | 18 | Bulgaria | 1.9 | 21 |
| Belarus | 1.8 | 22 | Belarus | 1.4 | 22 |
| Azerbaijan | 1.8 | 22 | Tajikistan | 1.4 | 22 |
| Tajikistan | 1.7 | 24 | Uzbekistan | 1.3 | 24 |
| Turkmenistan | 1.1 | 25 | Turkmenistan | 1.2 | 25 |
| CEE & NIS | 2.8 | | | 3.0 | |
| N.Tier CEE | 3.5 | | | 4.2 | |
| S.Tier CEE | 2.7 | | | 2.4 | |
| NIS | 2.6 | | | 2.7 | |
| EU | 5.0 | | | | |

¹EBRD, *Transition Report 1996* (November 1996), and Freedom House, *Nations in Transit 1997* (April 1997).

Table 5. Change in economic policy reforms: 1994-1996¹

| | 1st Round | | | 2nd Round | | 3rd Round | | | | Ave. |
|--------------|-----------|------|------|-----------|-----|-----------|-----|-----|-----|------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | |
| Georgia | 2 | 0 | 2 | 2 | 1 | 1 | 1 | 0 | 0 | 1.0 |
| Armenia | 0 | 0 | 2 | 2 | 1 | 0 | 1 | 0 | 1 | 0.8 |
| Ukraine | 1 | 0 | 2 | 1 | 1 | 0 | 1 | 0 | 1 | 0.8 |
| Kazakhstan | 1 | 0 | 2 | 1 | 1 | 0 | 1 | 0 | 0 | 0.7 |
| Albania | 1 | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 1 | 0.6 |
| Azerbaijan | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 0.6 |
| Latvia | 1 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 2 | 0.6 |
| Moldova | 1 | 0 | 2 | 1 | 0 | 0 | 0 | 0 | 1 | 0.6 |
| Croatia | 1 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 1 | 0.4 |
| Russia | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 0.4 |
| Uzbekistan | 0 | 0 | 0 | 1 | 1 | 0 | 1 | 0 | 1 | 0.4 |
| Estonia | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 0.3 |
| Macedonia | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 1 | 0.3 |
| Hungary | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0.3 |
| Slovenia | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0.3 |
| Czech Rep. | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0.2 |
| Lithuania | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0.2 |
| Poland | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0.2 |
| Romania | 0 | 0 | -1 | 1 | 0 | 0 | 1 | 0 | 1 | 0.2 |
| Slovak Rep. | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0.2 |
| Tajikistan | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 0.2 |
| Bulgaria | 1 | -1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0.1 |
| Kyrgyz Rep. | 0 | 0 | 1 | 0* | 0 | 0 | 0 | 0 | 0 | 0.1 |
| Turkmenistan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Belarus | 0 | 0 | 1 | -1 | 0 | 0 | 0* | 0 | -1 | -0.1 |
| CEE & NIS | 0.7 | 0.0 | 0.8 | 0.6 | 0.4 | 0.1 | 0.4 | 0.1 | 0.6 | 0.4 |
| N.Tier CEE | 1.0 | 0.0 | 0.9 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.3 |
| S.Tier CEE | 0.4 | -0.2 | -0.5 | 0.7 | 0.1 | 0.2 | 0.6 | 0.1 | 1.0 | 0.2 |
| NIS | 0.6 | 0.0 | 1.3 | 0.6 | 0.5 | 0.1 | 0.5 | 0.1 | 0.5 | 0.5 |
| Benchmark | | | | | | | | | | 0.0 |

¹EBRD, *Transition Report* (1994, 1995 & 1996). (1) small-scale privatization; (2) price liberalization; (3) trade & foreign exchange reforms; (4) large-scale privatization; (5) enterprise restructuring; (6) competition policy; (7) bank reforms; (8) non-bank financial reforms; (9) legal reforms. The change is based on a rating from 1-to-5; e.g., a "1" represents policy advancement from the previous time period a full increment on this 1-to-5 scale. The figures show a change from 1994-1996 for most of the indicators. For price liberalization, competition policy, non-bank financial reforms, and legal reforms indicators, it is a one year (1995-96) change. An "*" represents an advancement in 1995 which was offset by a deterioration in 1996.

B. Democratization

Progress towards democracy building is assessed from indicators drawn from Freedom House. First, the status and the change since 1991 in political rights and civil liberties are examined. Second, 1995-1996 democratic trends are further disaggregated and reviewed. As with the economic reforms, sufficient progress must entail both an adequate threshold as well as no significant deterioration.

Political Rights. Six primary criteria go into the determination of political freedoms:

- (a) the extent to which elections for head of government are free and fair;
- (b) the extent to which elections for legislative representatives are free and fair;
- (c) the ability of voters to endow their freely elected representatives with real power;
- (d) the openness of the system to competing political parties;
- (e) the freedom of citizens from domination by the military, foreign powers, totalitarian parties, and other powerful groups; and
- (f) the extent to which minority groups have reasonable self-determination and self-government.

An elaboration of Freedom House's rating scheme of political rights and civil liberties is provided in Appendix I.

Greater political liberties are both part of the end objective of a sustainable transition as well as a means to facilitate the economic reforms needed to achieve the transition. Arguably, the most credible route must be one which is facilitated by an open and competitive political system at all levels of government. This system must be sustained by broad-based participation from the electorate, and this electorate must have genuine influence on the course of political events. Such a route may not be the most rapid means of change, but it is by definition the most agreeable means among the citizens and hence likely the most sustainable.

Table 6 below highlights the results. They vary widely by country. There are six countries in CEE (the Czech Republic, Hungary, Lithuania, Slovenia, Poland, and Estonia) where political freedoms are among the most advanced in the world; that is, comparable to those found in the industrial market economies.

The Czech Republic, Hungary, Lithuania, and Slovenia have maintained this level of freedom since at least 1992 or 1993. Poland achieved this level in 1995, and Estonia in 1996. In scoring the second highest level, four other countries (Bulgaria, the Slovak Republic, Latvia, and Romania) are not far behind.

In contrast, Turkmenistan, Tajikistan, and Uzbekistan were among thirty countries of 191 rated by Freedom House to have the fewest political rights in 1996. Persons of one CEE country (Macedonia) and seven NIS (the above-mentioned three plus the Kyrgyz Republic, Belarus, Kazakhstan, and Azerbaijan) witnessed a deterioration in political rights from 1991 to 1996. During 1996, political rights decreased in Albania and Armenia, as well as in Belarus.

Finally, progress in the development of political rights over the transition is most evident in Estonia, Romania, Moldova, and Georgia. During 1996, political rights increased in three of these countries: Romania, Estonia, and Moldova.

Civil Liberties. Ten primary criteria go into the determination of civil liberties:

- (a) freedom of media, literature, and other cultural expressions;
- (b) existence of open public discussion and free private discussion including religious expressions;
- (c) freedom of assembly and demonstration;
- (d) freedom of political or quasi-political organization (which includes political parties, civic associations, and ad hoc issue groups);
- (e) equality of citizens under law with access to independent, nondiscriminatory judiciary;
- (f) protection from political terror and freedom from war or insurgency situations;
- (g) existence of free trade unions, professional organizations, businesses or cooperatives, and religious institutions;
- (h) existence of personal social freedoms, which include gender equality, property rights, freedom of movement, choice of residence, and choice of marriage and size of family;
- (i) equality of opportunity; and
- (j) freedom from extreme government indifference and corruption.

Civil liberties are the freedoms to develop views, institutions, and personal autonomy apart from the state. The development of civil liberties, like political liberties, is an end objective in itself. The merits of such liberties as freedom of assembly and open public discussions, and freedom from political terror and war are self-evident.

However, greater civil liberties can also serve as a crucial counterweight or check on governments in societies where political rights are lacking. This counterweight can be found among NGOs (such as free trade unions, professional organizations, and religious institutions) as well as a free media. An independent, nondiscriminatory judiciary is critical for similar reasons.

In addition, civil liberties tend to link quite closely with economic progress. Many--such as greater equality of opportunity, freedom from corruption, the existence of personal social freedoms such as gender equality, property rights, freedom of movement--contribute to a more productive economy as well as a more just one.

Table 7 below highlights the results. As with political liberties, results vary widely. Seven countries of CEE (the Czech Republic, Poland, Slovenia, Hungary, Estonia, Latvia, and Lithuania) have civil liberties comparable to several industrial market economies, including France, Germany, Italy, and the UK. Five of these countries (the Czech Republic, Poland, Slovenia, Hungary, and Estonia) have maintained this threshold since at least 1993. Of the seven, only Latvia showed a relapse, albeit temporary, in civil liberties from 1991-1996. Two CEE countries, Bulgaria and the Slovak Republic, experienced a decrease in civil liberties in 1996; no CEE countries witnessed an increase.

To contrast, civil liberties deteriorated in seven NIS from 1991-1996. Two NIS, Turkmenistan and Tajikistan, are rated by Freedom House as having civil liberties in 1996 as few as any country in the world. Nevertheless, not all recent trends in civil liberties in the NIS are so dismal. In 1996, civil liberties increased in Georgia, Azerbaijan, and Uzbekistan; only Belarus of the the NIS saw a deterioration in civil liberties in 1996.

Democratization Disaggregated.

In its *Nations in Transit 1997*, Freedom House further disaggregated democratization trends in the region. Table 8 displays this effort. Five components of democracy building are rated on a one-to-seven scale in each country for 1996 and compared to progress in 1995.

The *political process* focuses on elections, party configuration, political competition, and popular participation in elections. *Civil society* assesses the status of nongovernmental organizations; the number and nature of NGOs, and the degree of participation. *Independent media* attempts to measure freedom from government control (such as legal protection, editorial independence, and the extent of privatization) and the financial viability of private media. *Rule of law* examines constitutional reforms, the development and independence of the judiciary, and the rights of ethnic minorities. *Governance and Public Administration* focuses on legislative and executive effectiveness, and on government decentralization, including the independence and effectiveness of local and regional government.⁹

The results of Freedom House's attempts to quantify these five components of political liberalism are not directly comparable with the more aggregate ratings of political rights and civil liberties by Freedom House. Emphases differ some between the two schemes since the more aggregate measures are applied worldwide, while the disaggregated components may be better tailored to the ENI context.

Still, broad trends coincide; the relative progress between countries is similar between the two schemes. One difference that does emerge, however, is that a gap between the Northern Tier countries (particularly with the exclusion of Slovakia) and the rest is more evident in the disaggregated scheme.

In general, democratic freedoms are most advanced in political processes and least advanced in government and public administration. Armenia is the salient exception to the first generalization, and the Kyrgyz Republic to the second.

There were more countries which witnessed an increase in democratic freedoms (nine countries) in 1996 than there were those which showed deterioration (five). Democratization deteriorated across the board for Belarus; that is, in all five components. Croatia saw deterioration in three aspects. Of those which advanced, only Poland and Georgia witnessed an increase in more than one sector. No countries witnessed advance in one area and retrogression in another.

⁹Elaboration of the five components is provided in Appendix I.

Table 6. Political Rights¹

| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1993-96</u> <u>Change</u> | <u>1991-96</u> <u>Change</u> ² |
|-------------------|-------------|-------------|-------------|-------------|---------------------------------|----------------------------------------------|
| Czech Rep. | 1 | 1 | 1 | 1 | 0 | -- |
| Slovenia | 1 | 1 | 1 | 1 | 0 | 0 |
| Hungary | 1 | 1 | 1 | 1 | 0 | +1 |
| Lithuania | 1 | 1 | 1 | 1 | 0 | +1 |
| Poland | 2 | 2 | 1 | 1 | +1 | +1 |
| Estonia | 3 | 3 | 2 | 1 | +2 | +1 |
| Bulgaria | 2 | 2 | 2 | 2 | 0 | 0 |
| Slovak Rep. | 3 | 2 | 2 | 2 | +1 | -- |
| Latvia | 3 | 3 | 2 | 2 | +1 | 0 |
| Romania | 4 | 4 | 4 | 2 | +2 | +3 |
| Russia | 3 | 3 | 3 | 3 | 0 | 0 |
| Ukraine | 4 | 3 | 3 | 3 | +1 | 0 |
| Moldova | 5 | 4 | 4 | 3 | +2 | +2 |
| Croatia | 4 | 4 | 4 | 4 | 0 | 0 |
| Kyrgyz Rep. | 5 | 4 | 4 | 4 | +1 | -1 |
| Georgia | 5 | 5 | 4 | 4 | +1 | +2 |
| Macedonia | 3 | 4 | 4 | 4 | -1 | -1 |
| Albania | 3 | 3 | 3 | 4 | -1 | 0 |
| Armenia | 3 | 3 | 4 | 5 | -2 | 0 |
| Kazakstan | 6 | 6 | 6 | 6 | 0 | -1 |
| Azerbaijan | 6 | 6 | 6 | 6 | 0 | -1 |
| Belarus | 5 | 4 | 5 | 6 | -1 | -2 |
| Uzbekistan | 7 | 7 | 7 | 7 | 0 | -1 |
| Tajikistan | 7 | 7 | 7 | 7 | 0 | -2 |
| Turkmenistan | 7 | 7 | 7 | 7 | 0 | -1 |
| <hr/> | | | | | | |
| CEE & NIS | 3.6 | 3.4 | 3.3 | 3.2 | +0.4 | +0.1 |
| N.Tier CEE | 1.8 | 1.7 | 1.1 | 1.1 | +0.7 | +0.7 |
| S.Tier CEE | 3.4 | 3.5 | 3.5 | 2.5 | +1.0 | +1.0 |
| NIS | 4.1 | 3.8 | 3.8 | 3.9 | +0.2 | -0.2 |
| EU ³ | | | | 1 | | |
| OECD ⁴ | | | | 1.2 | | |
| Benchmarks | | | | 1 | 0 | |

¹Freedom House, *Nations in Transit* 1997 (April 1997). The rating ranges from 1 to 7; the lower is the number, the greater is the freedom. Appendix I elaborates.

²A "+" refers to an increase in freedom; a "-" to a decrease; "0" to no change. The change in Slovenia, Macedonia, and Croatia is calculated from 1992-1996.

³All 15 EU member states score "1".

⁴All but three OECD members score a "1"; the exceptions are Turkey ("4"), Mexico ("4"), and Korea ("2").

Table 7. Civil Liberties¹

| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1993-96</u> <u>Change</u> | <u>1991-96</u> <u>Change</u> ² |
|-------------------|-------------|-------------|-------------|-------------|---------------------------------|----------------------------------------------|
| Czech Rep. | 2 | 2 | 2 | 2 | 0 | -- |
| Poland | 2 | 2 | 2 | 2 | 0 | 0 |
| Slovenia | 2 | 2 | 2 | 2 | 0 | 0 |
| Hungary | 2 | 2 | 2 | 2 | 0 | 0 |
| Estonia | 2 | 2 | 2 | 2 | 0 | +1 |
| Latvia | 3 | 2 | 2 | 2 | +1 | 0 |
| Lithuania | 3 | 3 | 2 | 2 | +1 | +1 |
| Macedonia | 3 | 3 | 3 | 3 | 0 | 0 |
| Romania | 4 | 3 | 3 | 3 | +1 | +2 |
| Bulgaria | 2 | 2 | 2 | 3 | -1 | 0 |
| Slovak Rep. | 4 | 3 | 3 | 4 | 0 | -- |
| Albania | 4 | 4 | 4 | 4 | 0 | 0 |
| Croatia | 4 | 4 | 4 | 4 | 0 | 0 |
| Armenia | 4 | 4 | 4 | 4 | 0 | +1 |
| Russia | 4 | 4 | 4 | 4 | 0 | -1 |
| Ukraine | 4 | 4 | 4 | 4 | 0 | -1 |
| Kyrgyz Rep. | 3 | 3 | 4 | 4 | -1 | 0 |
| Moldova | 5 | 4 | 4 | 4 | +1 | 0 |
| Georgia | 5 | 5 | 5 | 4 | +1 | +1 |
| Kazakstan | 4 | 5 | 5 | 5 | -1 | -1 |
| Azerbaijan | 6 | 6 | 6 | 5 | +1 | 0 |
| Belarus | 4 | 4 | 5 | 6 | -2 | -2 |
| Uzbekistan | 7 | 7 | 7 | 6 | +1 | -1 |
| Tajikistan | 7 | 7 | 7 | 7 | 0 | -2 |
| Turkmenistan | 7 | 7 | 7 | 7 | 0 | -2 |
| CEE & NIS | 3.9 | 3.9 | 3.9 | 3.9 | +0.0 | -0.5 |
| N.Tier CEE | 2.2 | 2.1 | 2.1 | 2.1 | +0.1 | +0.1 |
| S.Tier CEE | 3.5 | 3.0 | 3.0 | 3.2 | +0.3 | +1.1 |
| NIS | 4.4 | 4.5 | 4.5 | 4.4 | +0.0 | -0.9 |
| EU ³ | | | | 1.5 | | |
| OECD ⁴ | | | | 1.7 | | |
| Benchmarks | | | | 2 | 0 | |

¹Freedom House, *Nations in Transit 1997* (April 1997). The rating ranges from 1 to 7; the lower is the number, the greater is the freedom. Appendix I elaborates.

²A "+" refers to an increase in freedom; a "-" to a decrease; "0" to no change. The change in Slovenia, Macedonia, and Croatia is calculated from 1992-1996.

³8 of the 15 members score a "1"; 6 score a "2" (Belgium, France, Germany, Italy, Spain, and UK); and Greece scores a "3".

⁴15 members score a "1"; 11 score a "2" (Belgium, Czech Rep., France, Hungary, Italy, Germany, Japan, Korea, Poland, Spain, & UK); Greece & Mexico score a "3"; and Turkey a "5".

Table 8. Democratization Disaggregated¹

| | <u>PP</u> ² | <u>CS</u> | <u>IM</u> | <u>ROL</u> | <u>GPA</u> | <u>Average</u> |
|--------------|------------------------|-----------|-----------|------------|------------|----------------|
| Czech Rep. | 1.3(+) | 1.5 | 1.3 | 1.5 | 2.0 | 1.5 |
| Hungary | 1.3 | 1.3 | 1.5 | 1.8 | 1.8 | 1.5 |
| Poland | 1.5 | 1.3 | 1.5(+) | 1.5(+) | 1.8 | 1.5 |
| Estonia | 2.0 | 2.3 | 1.8 | 2.3 | 2.3 | 2.1 |
| Latvia | 2.0 | 2.3 | 1.8 | 2.3 | 2.5 | 2.2 |
| Lithuania | 2.0 | 2.3 | 1.8 | 2.3 | 2.5 | 2.2 |
| Slovenia | 2.0 | 2.0 | 1.8 | 1.8 | 2.5 | 2.4 |
| Slovakia | 3.8 | 3.3 | 4.3(+) | 4.0 | 3.8 | 3.8 |
| Russia | 3.5 | 3.8 | 3.8 | 4.0(+) | 4.0 | 3.8 |
| Bulgaria | 3.3 | 4.0 | 3.8 | 4.3 | 4.3 | 3.9 |
| Macedonia | 3.5 | 3.8 | 4.0 | 4.3 | 4.0(+) | 3.9 |
| Moldova | 3.3 | 3.8 | 4.0(+) | 4.3 | 4.3 | 3.9 |
| Ukraine | 3.3 | 4.0 | 4.5 | 3.8(+) | 4.5 | 4.0 |
| Romania | 3.3(+) | 3.8 | 4.3 | 4.3 | 4.3 | 4.0 |
| Croatia | 4.0(-) | 3.5 | 4.8(-) | 4.8 | 4.0(-) | 4.2 |
| Albania | 4.3(-) | 4.3 | 4.8(-) | 4.8 | 4.8 | 4.6 |
| Armenia | 5.5(-) | 3.5 | 5.3(-) | 4.8 | 4.5 | 4.7 |
| Georgia | 5.0(+) | 4.5 | 4.5 | 5.0(+) | 4.5 | 4.7 |
| Kyrgyzstan | 5.0 | 4.5 | 5.0 | 4.5 | 4.3 | 4.7 |
| Kazakstan | 5.5(-) | 5.3 | 5.3 | 5.0 | 5.5 | 5.3 |
| Azerbaijan | 5.8 | 5.0 | 5.5 | 5.5 | 6.3 | 5.6 |
| Belarus | 6.0(-) | 5.3(-) | 6.3(-) | 6.0(-) | 6.0(-) | 5.9 |
| Tajikistan | 6.0 | 5.5 | 6.3 | 6.3 | 7.0 | 6.2 |
| Uzbekistan | 6.3 | 6.5 | 6.5 | 6.5 | 6.0 | 6.4 |
| Turkmenistan | 7.0 | 7.0 | 7.0 | 6.8 | 6.8 | 6.9 |
| CEE & NIS | 3.6 | 3.8 | 4.0 | 4.0 | 4.1 | 3.9 |
| N.Tier CEE | 1.7 | 1.6 | 1.7 | 1.8 | 2.1 | 1.8 |
| S.Tier CEE | 3.5 | 3.8 | 4.3 | 4.4 | 4.3 | 4.0 |
| NIS | 4.1 | 4.3 | 4.5 | 4.5 | 4.6 | 4.4 |

¹Freedom House, *Nations in Transit* 1997 (April 1997). The ratings range from 1 to 7; the lower is the number, the greater is the degree of achievement. A "+" represents an increase in freedom from 1995; a "-" signifies a decrease.

²PP: political process; CS: civil society; IM: independent media; ROL: rule of law; GPA: government & public administration.

C. Summary of Economic Reforms & Democratization

Table 9 provides a summary picture of the status of the economic policy reforms and democratic freedoms in 1996. The economic policy reform ratings represent an average of all nine EBRD policy indicators (that is, all three rounds). The democratic freedom ratings incorporate Freedom House's rating of political rights and civil liberties. For uniformity, Freedom House's ratings have been compressed to a one-to-five scale with five representing the most free. Figure 1 portrays these data in part to help ascertain how and to what extent economic policy and democratic reforms might be linked.

Salient observations. As revealed in Figure 1, there seem to be three groups of countries differentiated by progress towards economic and democratic reforms. The Northern Tier countries, less Slovakia, consist of one group, and are substantially out front, particularly in democratic reforms. The laggards appear to consist of six countries: the Central Asian Republics (less the Kyrgyz Republic), Belarus, and Azerbaijan. The middle group is the largest and includes the Southern Tier CEE countries, Russia, Ukraine, and other NIS. In general, this middle group may be where USAID can realize the greatest return on its investment; where needs are great, and the quality of partnership (with exceptions) is relatively high.

The spread in progress between the three groups is more evident in democratization than it is in economic reforms. Six of the Northern Tier countries now have democratic standards roughly comparable to many Western democracies. Two Central Asian Republics rank among the least democratic worldwide.

Linked to this trend is the observation that economic policy reforms in the region, relative to the standards in the industrial market economies, have far to go, even in the Northern Tier countries.

Figure 1 also reveals a close correspondence between economic and political liberalism. The trend line highlights that progress in both reform areas tend to go hand-in-hand. Progress in both areas is the most advanced in the Czech Republic, Hungary, and Poland. Turkmenistan, Tajikistan, Azerbaijan, Belarus, and Uzbekistan, rank towards the bottom in both areas.

There may be some notable exceptions. The Slovak Republic, Croatia, and, to lesser extent perhaps, Kazakhstan, have advanced relatively more in economic reforms than in democracy. Croatia, for example, ranks seventh in economic reforms, but only fifteenth in democratization. For Romania and Bulgaria,

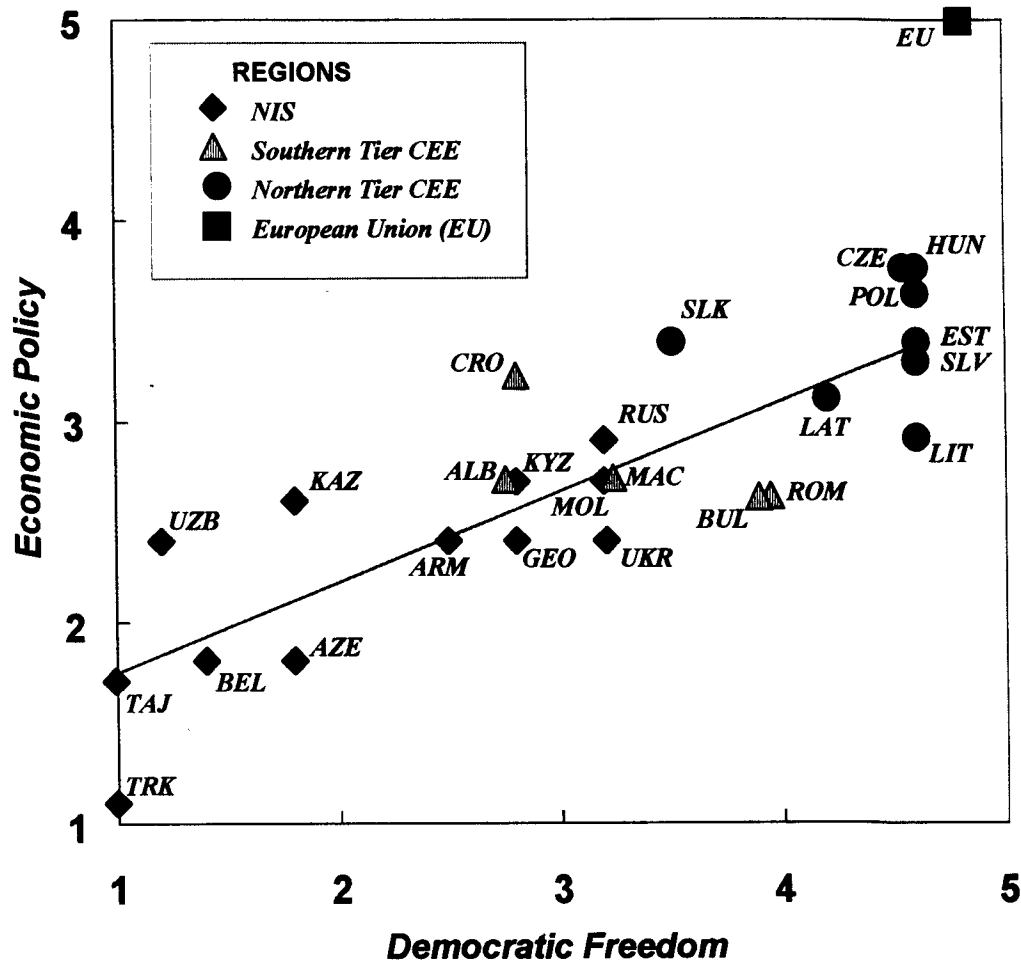
democratic freedoms in 1996 were notably out front of economic reforms, though more recent progress in economic reforms, particularly in Romania, may redress the imbalance.

Table 9. 1996 Economic Policy Reforms and Democratic Freedoms in CEE & NIS¹

| Economic Policy | | | Democratic Freedoms | | |
|-----------------|---------------|----------------|---------------------|---------------|----------------|
| | <u>Rating</u> | <u>Ranking</u> | | <u>Rating</u> | <u>Ranking</u> |
| Czech Rep. | 3.7 | 1 | Czech Rep. | 4.6 | 1 |
| Hungary | 3.7 | 1 | Hungary | 4.6 | 1 |
| Poland | 3.6 | 3 | Poland | 4.6 | 1 |
| Estonia | 3.4 | 4 | Slovenia | 4.6 | 1 |
| Slovak Rep. | 3.4 | 4 | Lithuania | 4.6 | 1 |
| Slovenia | 3.3 | 6 | Estonia | 4.6 | 1 |
| Croatia | 3.2 | 7 | Latvia | 4.2 | 7 |
| Latvia | 3.1 | 8 | Bulgaria | 3.9 | 8 |
| Lithuania | 2.9 | 9 | Romania | 3.9 | 8 |
| Russia | 2.9 | 9 | Slovak Rep. | 3.5 | 10 |
| Albania | 2.7 | 11 | Macedonia | 3.2 | 11 |
| Macedonia | 2.7 | 11 | Russia | 3.2 | 11 |
| Moldova | 2.7 | 11 | Ukraine | 3.2 | 11 |
| Kyrgyz Rep. | 2.7 | 11 | Moldova | 3.2 | 11 |
| Bulgaria | 2.6 | 15 | Albania | 2.8 | 15 |
| Romania | 2.6 | 15 | Croatia | 2.8 | 15 |
| Kazakstan | 2.6 | 15 | Kyrgyz Rep. | 2.8 | 15 |
| Armenia | 2.4 | 18 | Georgia | 2.8 | 15 |
| Georgia | 2.4 | 18 | Armenia | 2.5 | 19 |
| Ukraine | 2.4 | 18 | Kazakstan | 1.8 | 20 |
| Uzbekistan | 2.4 | 18 | Azerbaijan | 1.8 | 20 |
| Belarus | 1.8 | 22 | Belarus | 1.4 | 22 |
| Azerbaijan | 1.8 | 22 | Uzbekistan | 1.2 | 23 |
| Tajikistan | 1.7 | 24 | Tajikistan | 1.0 | 24 |
| Turkmenistan | 1.1 | 25 | Turkmenistan | 1.0 | 24 |
| CEE & NIS | 2.8 | | | 3.2 | |
| N.Tier CEE | 3.5 | | | 4.5 | |
| S.Tier CEE | 2.7 | | | 3.7 | |
| NIS | 2.6 | | | 2.8 | |
| EU | 5.0 | | | 4.8 | |
| OECD | -- | | | 4.6 | |

¹Economic Policy ratings are from EBRD, *Transition Report 1996* (November 1996); democracy ratings are from Freedom House, *Nations in Transit 1997* (April 1997), and *Freedom in the World, 1996-1997*. On a 1-5 scale with 5 being the most advanced. Bosnia-Herzegovina rates a "2.1" on democratic freedoms; Yugoslavia (Serbia & Montenegro), "1.4". Regional averages are population-weighted. Elaboration of the method is provided in Appendix I.

Figure 1
Economic Policy Reforms and Democratic
Freedom in CEE and the NIS



Note: Ratings based on 1-5 scale with 5 representing most advanced
 Sources: EBRD (1996), Freedom House (1997)

D. Sustainability

In this section, we weigh the economic and democratic reforms with the macroeconomic and microeconomic evidence. Economic policy reforms need to translate into good macroeconomic performance. Yet, this is not enough. The benefits at the macro level must also be reasonably well distributed and need to translate into social conditions that at the least are not significantly deteriorating. Otherwise, the reforms may stall for lack of support, and/or fiscal sustainability may be jeopardized.

It merits stating that the quality of these data is often questionable. Credible comparisons across time and across countries are sometimes difficult. In general, data for CEE are better than that for the NIS, and much of the economic data are likely better than much of the social data. Conclusions should be based on a variety of evidence if possible.

1. Macroeconomic Performance.

Tables 10 through 16 highlight macroeconomic performance. Fundamental to sustaining reforms is sustained economic growth at some moderate rate or greater. As evident in Table 10, most of the CEE countries are achieving this. The Northern Tier region overall in fact has been growing at a very impressive clip; well over four percent on average over the past three years and more than double the EU rate. Of this group, Hungary, Latvia, and Estonia have been lagging some, though 1997 forecasts show fairly robust growth for all three.

The 1994-1996 average economic growth of over three percent for the Southern Tier CEE countries is also impressive. There has been some backsliding recently, however. Bulgaria's economy contracted by ten percent in 1996. Albania's economy has been contracting in 1997, and in Romania, as a consequence of renewed efforts to stabilize and restructure the economy, 1997 economic growth is expected to be minimal at best.

Overall economic activity in the NIS, in striking contrast to performance in CEE, continued to contract through 1996, though the pace of this decline is slowing. 1997 may in fact be the first year of positive growth for the NIS since the transition began. This is largely because, while Russia's economy contracted by six percent in 1996, it may have bottomed out in 1997. While the majority of the NIS experienced positive economic growth in 1996 (Armenia, Georgia, Uzbekistan, Kyrgyz Republic, perhaps Belarus, Azerbaijan, and Kazakhstan), only Armenia's economy has yet to experience robust, sustained (three years or more) growth over the transition. Georgia and the

Kyrgyz Republic experienced moderate growth in 1995, and high growth in 1996, and hence may not be far behind in this regard, however.

For most countries of the region, inflation continues to fall (Table 11). The drop in inflation is particularly impressive in the NIS where 1996 inflation may be under forty percent, down from 175 percent in 1995.

Still, inflation is too high in most countries. Annual inflation rates much above the single-digit range erodes business confidence, and the ability and incentive to invest and expand at the enterprise level. Only five countries, all in CEE (Croatia, the Slovak Republic, the Czech Republic, Slovenia, and Albania), had a 1994-1996 inflation rate below fifteen percent. By comparison, EU inflation in recent years has remained below three percent. Of these five CEE countries, Albania has experienced a recent resurgence in inflation. This has also occurred in two other Southern Tier countries; Bulgaria's inflation increased from thirty-three percent in 1995 to over 300 percent in 1996; Romania's inflation doubled to almost 60% from 1995-1996.

Budget deficits (Table 12) which remain high fuel inflation and unproductive activity, particularly if financial markets are not well-functioning. If in fact the financial markets are well-established, high budget deficits may ultimately crowd out potential private sector investors from such markets.

While the deficits on average in ENI have declined substantially since the beginning of the transition, there was notable backsliding in 1996. This is largely because fiscal deficits went from high to higher in the past year in three Southern Tier countries (Albania, Romania, and Bulgaria), as well as in Russia.

On the other hand, there may be as many as nine countries with 1994-1996 fiscal balances which better the EU Maastricht target of a three percent deficit. Most of the countries are Northern Tier countries. Moreover, Hungary, which has been the one Northern Tier country troubled with particularly high fiscal deficits in recent years, experienced a significant improvement in its balance in 1996.

Table 13 shows trends in domestic investment and the share of the economies in private sector hands. The private sector share of the economy is a good proxy for the extent of economic restructuring, either through the privatization process or the growth of new private-sector firms. Those economies which predominantly produce private sector output are much more likely to generate momentum towards greater economic expansion overall.

Fifteen countries of the region now in fact have a private sector

generating at least fifty percent of GDP. This represents very impressive gains from early transition years; a rough 1989 estimate of the region's private sector share may be close to ten percent of GDP.

In CEE, only Slovenia and Bulgaria do not yet meet the fifty percent threshold. Slovenia is a particularly interesting case since its economy is a relatively strong performer.

In the NIS, the economies which have made the greatest structural change by this standard are Russia, Armenia, Georgia, and the Kyrgyz Republic. All have at least fifty percent of the economy generated by the private sector.

Domestic investment (Table 13) contributes to the productive capacity of the economy and hence helps provide the momentum which is necessary for sustained economic expansion further down the road. Domestic investment in the region on average is roughly twenty-two percent of GDP.¹⁰ This is above the EU and OECD averages, though falls far short of that generated in the high performing Asian developing economies.

If the figures are credible, some economies are investing very little. This applies in particular to Georgia, Moldova, and Macedonia.

Paralleling GDP trends, most countries have experienced a significant decline in investment since 1990; a roughly twenty percent drop for the region as a whole. However, this trend may be changing, at least for the Northern Tier countries. The 1994-1995 data suggest resumption of investment growth for at least seven countries, and six of these are Northern Tier countries.

An important indicator of the extent to which firms are restructuring is the productivity of labor, or output per employee (Table 14). The efficiency gains from an increase in productivity would likely stem from a number of possibilities, including fewer excess workers, greater skilled and/or motivated workers, improved capital stock, and/or a greater capacity to manage.

Labor productivity in industry is increasing in the CEE countries for which data are available. The productivity increase has been most impressive in Hungary and Poland; since 1992, an average annual rate of increase of over ten percent. Productivity gains have also been impressive in the Czech Republic and Romania more

¹⁰This combines public and private investment. A more revealing indicator would measure private domestic investment only.

recently. At least five CEE countries (Hungary, Poland, Bulgaria, the Czech Republic, and Slovenia) now have regained pre-transition levels of productivity.

Very little productivity data are available for the NIS. After several years of decline, Russia experienced an increase in productivity in 1995, though this has been tempered by a small decrease in 1996.

How and to what extent these economies integrate into the world economy play significantly into the type of the transition path and its sustainability. Tables 15 and 16 highlight some key aspects of this integration: export growth and openness to trade; current account balances; institutional integration; foreign direct investment; and external debt.

The gains from trade can be substantial, and range from the tangible (of increasing an economy's quantity and quality of available goods, including capital goods) to the intangible (of providing incentives and a constituency to maintain the market-based reforms which also serve as pre-requisites to institutional integration with the industrial market economies).

Export growth through the region on balance is high, particularly for the Northern Tier countries. To contrast, Northern Tier exports grew by almost twenty percent in 1994-1996; for the EU, it was closer to seven percent. The Southern Tier and the NIS experienced high (double figure) export growth as well, though the averages mask wide diversity. Exports may have contracted, in fact, in Macedonia, Georgia, and Turkmenistan from 1994-1996.

Openness to trade or outward-orientation varies widely throughout ENI. This is a reflection in part of the fact that such an indicator is a function of a handful of factors, including the competitiveness of the economy as well as its size (the smaller economies tend to be more outward-oriented out of necessity).

Outward-orientation is greater in the ENI region than it is in the EU and in the advanced economies more broadly. Within ENI, the sub-region with the greatest outward-orientation is the Northern Tier; the external sector (exports and imports) is roughly at least as large as the entire economy in Estonia, the Czech Republic, the Slovak Republic, Latvia, and Slovenia. If the data are credible, however, Turkmenistan and Tajikistan are far and away the most outward-oriented of all the transition economies; exports and imports in these economies may have been more than 300 percent of GDP in 1996.

Most ENI countries are incurring current account deficits (Table 15). To some extent, as the economies climb out of the "transition trough", current account deficits can be expected,

and may even be a reflection of positive developments. Some of the transition leaders in CEE in fact registered sharp deteriorations in current account deficits in 1995 and 1996 due largely to robust economic growth (and presumably not because of any significant decline in export competitiveness). Further, if much of the imports are capital goods, as seems to be the recent case, for example, in the Czech Republic, then this may contribute to a greater ability to compete and export in the future.

Nevertheless, high current account deficits cannot be sustained over the longer-term without adverse consequences. This concern applies to a number of countries. In CEE, Albania, Macedonia, and Estonia have all been incurring high current account deficits over several years. Hungary's deficit has been high as well, though it improved significantly in 1996. Current account deficits mushroomed in the Czech Republic, the Slovak Republic, and Croatia in 1996.

Among the NIS, current account deficits are even higher in some countries: thirty percent of GDP from 1994-1996 in Armenia; twenty percent of GDP in Georgia and the Kyrgyz Republic; and fifteen percent in Azerbaijan.

An important means to institutionalizing global integration, and hence to locking-in the gains from reform, is through memberships and/or participation in international organizations. For our purposes, this includes membership or participation towards membership in the OECD, the World Trade Organization, NATO, and the European Union. As shown in Table 15, institutional integration, as so defined, is taking place only among the CEE countries, and primarily in the Northern Tier. The Czech Republic, Hungary, and Poland have recently been invited to join NATO. In addition, these three countries plus Slovenia and Estonia have been invited to participate in the next round of negotiations towards EU membership.

Foreign direct investment (FDI) is key to the transition (Table 16). It helps meet the substantial fixed investment needs of the region that arise from obsolete fixed capital stocks and inadequate infrastructure. It does so without adding to the external debt burden. And, it brings with it some very important externalities, including access to advanced technology and export markets, and exposure to advanced management and marketing techniques.

For most of the countries, foreign direct investment (FDI) flows remain relatively insignificant, and the potential to attract such investment largely unrealized. The cumulative inflow during 1991-1996 may be close to four percent of the transition economies' GDP. This compares to six percent for Latin America

and thirteen percent for the East Asian developing economies.

The lion's share of FDI in ENI is going to a handful of Northern Tier countries. Close to one-half of the cumulative flows during 1991-1996, in fact, have gone to Hungary and the Czech Republic. On a per capita basis, Hungary has attracted far and away the greatest amount. The Czech Republic is a distant second, followed by Estonia and Slovenia.

Much of the FDI in CEE has been tied to the privatization process, and most of it so far is inward-looking; that is, to produce or service for the domestic market. The relatively small amount of FDI that has flowed to the NIS has largely been in response to opportunities to exploit energy resources, in Turkmenistan, Azerbaijan, and Kazakhstan in particular.

Many transition economies have made considerable progress towards gaining access to international financial markets. Such access means greater financial capital, expertise, and financial discipline. Important pre-requisites to such access include significant progress towards economic reforms and a sustainable external debt position.

External debt trends vary widely in the region (Table 16). By World Bank standards, two countries in 1996--Albania and Georgia--were severely indebted, and four--Armenia, Bulgaria, Hungary, and the Kyrgyz Republic--were moderately indebted.¹¹

The high indebtedness among some in the NIS is striking given that Russia assumed all the Soviet debt at the outset of the transition. In addition to the three NIS mentioned above, debt is relatively high for Moldova as well as Russia, at levels just under the moderately indebted threshold.

In CEE, much progress has been made in reducing debt burdens since 1991. This includes progress in the relatively more indebted countries of Albania and Bulgaria. Hungary has made good progress as well since 1994, though its debt service burden (at close to 40%) remains too high and much above the rest. Poland and Croatia have also considerably decreased their debt burden.

¹¹The World Bank classifies a country as "severely indebted" if its debt-export ratio exceeds 220 percent, and "moderately indebted" if debts are more than 132 percent of exports.

Table 10. Growth in Real GDP (percent change)¹

| | <u>1991</u> | <u>1992</u> | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> | '94-96 <u>ave.</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------|
| Albania | -27.7 | -7.2 | 9.6 | 10.3 | 9.5 | 8.5 | -5.0 | 9.4 |
| Slovak R. | -2.5 | -6.5 | -3.7 | 4.9 | 7.4 | 6.8 | 4.1 | 6.4 |
| Poland | -7.0 | 2.6 | 3.8 | 5.2 | 7.0 | 6.0 | 5.5 | 6.1 |
| Armenia | -10.8 | -52.4 | -14.8 | 5.4 | 6.9 | 4.5 | 5.8 | 5.6 |
| Romania | -12.9 | -8.8 | 1.3 | 3.9 | 6.9 | 4.3 | 1.0 | 5.0 |
| Slovenia | -8.1 | -5.4 | 2.8 | 5.3 | 3.9 | 3.5 | 3.7 | 4.2 |
| Czech Rep. | -14.2 | -6.4 | -0.9 | 2.6 | 4.8 | 4.0 | 2.0 | 3.8 |
| Lithuania | -13.4 | -37.7 | -24.2 | 1.0 | 3.1 | 3.0 | 3.8 | 2.4 |
| Croatia | -20.0 | -11.0 | -0.8 | 0.6 | 1.7 | 4.5 | 6.0 | 2.3 |
| Hungary | -11.9 | -3.1 | -0.6 | 2.9 | 1.5 | 0.5 | 2.7 | 1.6 |
| Estonia | -7.9 | -14.2 | -8.5 | -2.7 | 2.9 | 3.3 | 4.0 | 1.2 |
| Georgia | -13.8 | -44.8 | -25.4 | -11.4 | 2.4 | 10.5 | 8.0 | 0.5 |
| Latvia | -8.3 | -35.0 | -16.0 | 0.6 | -1.6 | 2.3 | 4.0 | 0.4 |
| Macedonia | -12.1 | -21.1 | -8.4 | -4.0 | -1.5 | 3.0 | 4.7 | -0.8 |
| Uzbekistan | -0.5 | -11.1 | -2.3 | -4.2 | -1.2 | 1.6 | 1.0 | -1.3 |
| Bulgaria | -11.7 | -7.3 | -2.4 | 1.8 | 2.6 | -10.0 | -3.0 | -1.9 |
| Kyrgyz R. | -5.0 | -19.0 | -16.0 | -26.5 | 1.3 | 5.4 | 3.0 | -6.6 |
| Belarus | -1.2 | -9.6 | -10.6 | -12.2 | -10.2 | 2.6 | 2.0 | -6.6 |
| Russia | -13.0 | -14.5 | -8.7 | -12.6 | -4.0 | -6.0 | 0.0 | -7.5 |
| Azerbaijan | -0.7 | -22.6 | -23.1 | -21.2 | -8.3 | 1.2 | 4.5 | -9.4 |
| Kazakhstan | -13.0 | -14.0 | -12.0 | -25.0 | -8.9 | 1.4 | 2.5 | -10.8 |
| Turkmenistan | -4.7 | -5.3 | -10.0 | -20.0 | -10.0 | -4.0 | -3.0 | -11.3 |
| Tajikistan | -7.1 | -29.0 | -11.1 | -21.5 | -12.5 | -7.0 | 5.0 | -13.7 |
| Moldova | -17.5 | -29.0 | -1.0 | -31.0 | -3.0 | -8.0 | -2.0 | -14.0 |
| Ukraine | -9.0 | -10.0 | -14.0 | -23.0 | -11.8 | -10.0 | -3.0 | -14.9 |
| CEE & NIS | -10.4 | -12.2 | -7.3 | -9.8 | -2.5 | -2.2 | 1.0 | -4.8 |
| N.Tier CEE | -8.8 | -3.9 | -0.3 | 4.0 | 5.3 | 4.6 | 4.3 | 4.6 |
| S.Tier CEE | -14.6 | -9.3 | 0.4 | 3.2 | 5.2 | 1.7 | 0.9 | 3.3 |
| NIS | -10.2 | -14.8 | -10.3 | -15.3 | -5.7 | -4.6 | 0.2 | -8.5 |
| EU | | | | 2.8 | 2.5 | 1.6 | 2.4 | 2.3 |
| Advanced Countries | | | | 2.8 | 2.5 | 2.5 | 2.9 | 2.4 |
| Developing Countries | | | | 6.6 | 6.0 | 6.5 | 6.6 | 6.3 |

Benchmarks

(a) 3 yrs. positive growth;

(b) 3 yr. ave. growth of 2.0% or more

¹EBRD, *Transition Report Update 1997* (April 1997), IMF, *World Economic Outlook* (May 1997), and The Economist Intelligence Unit, *ENI Country Reports* (most recent quarterly reports). 1997 figures are forecasts.

Table 11. Inflation¹

| | <u>1991</u> | <u>1992</u> | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | '95-96 <u>ave.</u> | '94-96 <u>ave.</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------|-----------------------|
| Croatia | 249 | 937 | 1,150 | -3 | 4 | 3 | 3.5 | 1.3 |
| Slovak R. | 58 | 9 | 25 | 12 | 7 | 5 | 6.0 | 8.0 |
| Czech Rep. | 52 | 13 | 18 | 10 | 8 | 9 | 8.5 | 9.0 |
| Slovenia | 247 | 93 | 23 | 13 | 9 | 9 | 9.0 | 10.3 |
| Albania | 104 | 237 | 31 | 16 | 6 | 19 | 12.5 | 13.7 |
| Latvia | 262 | 958 | 35 | 26 | 23 | 13 | 18.0 | 20.7 |
| Macedonia | 115 | 1,935 | 230 | 55 | 9 | 1 | 5.0 | 21.7 |
| Hungary | 32 | 22 | 21 | 21 | 28 | 20 | 24.0 | 23.0 |
| Poland | 60 | 44 | 38 | 29 | 22 | 19 | 20.5 | 23.3 |
| Estonia | 304 | 954 | 36 | 42 | 29 | 16 | 22.5 | 29.0 |
| Lithuania | 345 | 1,161 | 189 | 45 | 36 | 13 | 26.3 | 32.5 |
| Romania | 223 | 199 | 296 | 62 | 28 | 57 | 42.5 | 49.0 |
| Kyrgyz R. | 170 | 1,771 | 1,366 | 87 | 32 | 35 | 33.5 | 51.3 |
| Moldova | 151 | 2,198 | 837 | 116 | 24 | 15 | 19.5 | 51.7 |
| Russia | 144 | 2,318 | 841 | 203 | 131 | 22 | 76.5 | 118.7 |
| Bulgaria | 339 | 79 | 64 | 122 | 33 | 311 | 172.0 | 155.3 |
| Ukraine | 161 | 2,000 | 10,155 | 401 | 182 | 40 | 111.0 | 208.0 |
| Kazakstan | 137 | 2,984 | 2,169 | 1,160 | 60 | 40 | 50.0 | 420.0 |
| Uzbekistan | 169 | 910 | 885 | 1,281 | 117 | 64 | 91.0 | 487.0 |
| Tajikistan | 204 | 1,364 | 7,344 | 5 | 1,500 | 42 | 771.0 | 515.7 |
| Azerbaijan | 126 | 1,395 | 1,294 | 1,788 | 50 | 7 | 28.5 | 615.0 |
| Armenia | 25 | 1,341 | 10,896 | 1,885 | 32 | 6 | 19.0 | 641.0 |
| Belarus | 93 | 1,558 | 1,994 | 1,957 | 244 | 39 | 141.5 | 746.7 |
| Turkmenistan | 155 | 644 | 9,750 | 1,330 | 1,262 | 446 | 854.0 | 1,013 |
| Georgia | 131 | 1,176 | 7,488 | 6,473 | 57 | 15 | 36.0 | 2,182 |
| CEE & NIS | 144 | 1,519 | 2,302 | 463 | 130 | 38 | 84.4 | 210.6 |
| N.Tier CEE | 86 | 141 | 39 | 25 | 21 | 16 | 18.2 | 20.3 |
| S.Tier CEE | 235 | 352 | 324 | 63 | 24 | 97 | 60.2 | 61.0 |
| NIS | 146 | 2,047 | 3,179 | 635 | 175 | 36 | 105.2 | 281.9 |
| EU | | | | 2.9 | 3.0 | 2.5 | 2.8 | 2.8 |
| Advanced Countries | | | | 2.6 | 2.6 | 2.4 | 2.5 | 2.5 |
| Developing Countries | | | | 51.3 | 21.3 | 13.1 | 17.2 | 28.6 |
| Benchmarks | | | | | | | <10.0 | 15.0 |

¹EBRD, Transition Report Update 1997 (April 1997), and IMF, World Economic Outlook (May 1997). Retail/consumer prices (end-year).

Table 12. Fiscal Balance as Percent of GDP¹

| | <u>1991</u> | <u>1992</u> | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | '94-96 <u>ave.</u> |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------|
| Croatia | -- | -4.0 | -0.8 | 1.7 | -0.9 | -0.5 | 0.1 |
| Czech Rep. | -2.0 | -3.3 | 1.4 | 0.5 | -0.8 | -0.5 | -0.3 |
| Slovenia | 2.6 | 0.3 | 0.3 | -0.2 | 0.0 | -0.6 | -0.3 |
| Estonia | 5.2 | -0.3 | -0.7 | 1.3 | -0.8 | -2.0 | -0.5 |
| Slovak Rep. | -2.0 | -11.9 | -7.6 | -1.3 | 0.1 | -1.4 | -0.9 |
| Turkmenistan | 2.5 | 13.2 | -0.5 | -1.4 | -1.6 | -1.0 | -1.3 |
| Macedonia | -- | -10.0 | -14.0 | -3.0 | -1.0 | -0.5 | -1.5 |
| Belarus | 3.6 | -1.6 | -8.3 | -2.6 | -1.9 | -1.4 | -2.0 |
| Poland | -6.5 | -6.6 | -2.9 | -2.0 | -3.5 | -2.7 | -2.7 |
| Latvia | -- | -0.8 | 0.6 | -4.0 | -3.3 | -2.0 | -3.1 |
| Romania | 0.6 | -4.6 | -0.1 | -1.0 | -2.8 | -5.4 | -3.1 |
| Lithuania | 2.7 | 0.8 | -3.1 | -4.2 | -3.3 | -4.0 | -3.8 |
| Kazakstan | -7.9 | -7.3 | -1.2 | -6.8 | -2.3 | -2.7 | -3.9 |
| Uzbekistan | -3.6 | -18.4 | -10.5 | -6.1 | -4.1 | -3.5 | -4.6 |
| Georgia | -3.0 | -25.4 | -26.2 | -7.4 | -4.5 | -4.4 | -5.4 |
| Ukraine | -13.6 | -23.2 | -9.7 | -8.2 | -4.9 | -4.5 | -5.9 |
| Hungary | -2.2 | -5.5 | -6.8 | -8.2 | -6.5 | -3.5 | -6.1 |
| Moldova | -- | -23.4 | -6.8 | -9.0 | -5.5 | -4.0 | -6.2 |
| Bulgaria | -- | -13.0 | -10.9 | -5.8 | -5.7 | -8.0 | -6.5 |
| Russia | -31.0 | -18.8 | -7.6 | -10.1 | -4.9 | -7.7 | -7.6 |
| Azerbaijan | -5.0 | 2.8 | -13.0 | -14.8 | -7.0 | -3.0 | -8.3 |
| Kyrgyz Rep. | 4.6 | -17.4 | -13.5 | -7.7 | -12.5 | -6.5 | -8.9 |
| Tajikistan | -16.4 | -31.2 | -25.0 | -10.5 | -11.2 | -5.3 | -9.0 |
| Albania | -31.0 | -22.0 | -10.0 | -8.0 | -7.4 | -12.2 | -9.2 |
| Armenia | -1.9 | -37.6 | -48.2 | -16.4 | -9.9 | -8.6 | -11.6 |
| CEE & NIS | -14.9 | -14.6 | -7.5 | -7.1 | -4.4 | -5.2 | -5.6 |
| N.Tier CEE | -3.8 | -5.5 | -2.9 | -2.5 | -3.1 | -2.4 | -2.7 |
| S.Tier CEE | -2.1 | -7.9 | -3.9 | -2.3 | -3.4 | -5.6 | -3.8 |
| NIS | -19.7 | -17.9 | -9.2 | -9.0 | -4.9 | -5.9 | -6.6 |
| EU | | | -6.5 | -5.8 | -5.2 | -4.4 | |
| Advanced Countries | | | -4.2 | -3.4 | -3.2 | -2.7 | |
| Developing Countries | | | -3.3 | -2.6 | -2.4 | -2.2 | |
| EU (Maastricht) target | | | | | | | -3.0 |
| Benchmark | | | | | | | -3.0 |

¹EBRD, *Transition Report Update 1997* (April 1997), and IMF, *World Economic Outlook* (May 1997). General government balance (central gov't balance for Croatia, Turkmenistan, and the developing countries).

Table 13. Private Sector Share of GDP & Domestic Investment¹

| | Gross Domestic Investment | | | | | Private Sector Output in 1996 (% GDP) |
|------------------|---------------------------|-----------------|------|----------------------------------|-------|---------------------------------------------|
| | 1990 | 1994 (% GDP) | 1995 | 90-94/5 (% change) | 94-95 | |
| Czech R. | 29 | 20 | 25 | -14 | 25 | 75 |
| Albania | 29 | 14 | 16 | -45 | 14 | 75 |
| Estonia | 30 | 33 | 27 | -10 | -18 | 70 |
| Hungary | 25 | 22 | 23 | -8 | 5 | 70 |
| Slovak R. | 34 | 17 | 28 | -18 | 65 | 70 |
| Lithuania | 34 | -- | 19 | -44 | -- | 65 |
| Poland | 26 | 16 | 17 | -35 | 6 | 60 |
| Latvia | 40 | 11 | 21 | -48 | 91 | 60 |
| Romania | 30 | 27 | 26 | -13 | -4 | 60 |
| Russia | 30 | 27 | 25 | -17 | -7 | 60 |
| Croatia | 13 | 14 | 14 | 8 | 0 | 50 |
| Macedonia | 32 | 18 | 15 | -53 | -17 | 50 |
| Armenia | 47 | 10 | 9 | -81 | -10 | 50 |
| Georgia | -- | -- | 3 | -- | -- | 50 |
| Kyrgyz Rep. | 24 | -- | 16 | -33 | -- | 50 |
| Slovenia | 17 | 21 | 22 | 29 | 5 | 45 |
| Bulgaria | 26 | 21 | 21 | -19 | 0 | 45 |
| Kazakstan | 43 | 24 | 22 | -49 | -8 | 40 |
| Moldova | -- | 8 | 7 | -- | -13 | 40 |
| Ukraine | 28 | -- | -- | -- | -- | 40 |
| Uzbekistan | 32 | 23 | 23 | -28 | 0 | 40 |
| Azerbaijan | 28 | 23 | 16 | -43 | -30 | 25 |
| Tajikistan | 23 | -- | 17 | -26 | -- | 20 |
| Turkmenistan | 40 | -- | -- | -- | -- | 20 |
| Belarus | 27 | -- | 25 | -7 | -- | 15 |
| CEE & NIS | 29.6 | 23.4 | 22.2 | -22 | -2 | 53 |
| N.Tier CEE | 27.3 | 17.8 | 20.3 | -26 | 16 | 64 |
| S.Tier CEE | 27.3 | 22.6 | 22.2 | -17 | -2 | 56 |
| NIS | 30.5 | 25.5 | 22.8 | -22 | -8 | 49 |
| EU | | | 19 | Benchmarks: | | |
| OECD | | | 20 | (a) 50% of GDP in private sector | | |
| LDCs: | | | 27 | (b) GDI is 18% of GDP | | |
| Sub S.Africa | | | 19 | (c) no dom. investment decline | | |
| East Asia & Pac. | | | 39 | | | |

¹EBRD, *Transition Report 1996* (November 1996), and World Bank, *World Development Report 1996 & 1997* (June 1996/1997).

Table 14. Labor Productivity¹

| Labor Productivity in Industry | | | | | | | | | |
|--------------------------------|------------|-------|-------|-------|-------|------|------|--------|---------------------|
| | (% change) | | | | | | | '94-96 | '96/89 ² |
| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | ave. | (%) |
| CEE: | | | | | | | | | |
| Hungary | 0.4 | -17.9 | 10.7 | 18.5 | 7.3 | 11.2 | 8.0 | 8.8 | 139 |
| Poland | -21.1 | -11.9 | 17.1 | 14.5 | 19.2 | 9.6 | 13.4 | 14.1 | 138 |
| Bulgaria | -10.4 | -11.1 | 0.2 | 5.5 | 14.2 | 9.0 | 0.1 | 7.8 | 105 |
| Czech R. | -0.4 | -16.6 | -7.6 | -3.5 | 4.0 | 20.5 | 10.5 | 11.7 | 103 |
| Slovenia | -9.0 | -1.0 | -1.0 | 5.0 | 10.0 | -- | -- | -- | 103 |
| Romania | -24.6 | -18.5 | -12.3 | 9.0 | 11.6 | 15.7 | 13.1 | 13.5 | 86 |
| Croatia | -10.0 | -14.0 | -1.0 | -2.0 | 2.0 | -- | -- | -- | 77 |
| Slovak R. | -- | -- | 7.4 | 0.6 | 6.8 | 4.0 | 2.5 | 4.4 | -- |
| NIS: | | | | | | | | | |
| Ukraine | 0.0 | -5.0 | -1.0 | -1.0 | -18.0 | -- | -- | -- | 76 |
| Russia | 1.0 | -5.0 | -12.0 | -14.2 | -13.6 | 4.7 | -0.2 | -3.2 | 65 |

¹EBRD, *Transition Report Update 1997* (April 1997). World Bank, *World Development Report 1996* (June 1996). Output per employee in industry.

²1994 productivity relative to 1989 in the case of Croatia, Slovenia, and Ukraine.

Table 15. *Integration into the World Economy (I)*¹

| | Export Growth (%) | Openness to trade (% GDP) | Current Account Balance (% GDP) | | Institutional Integration (memberships) |
|--------------------|-------------------------|---------------------------------|---------------------------------------|-------|-----------------------------------------------|
| | 1994-96 | 1996 | 1994-96 | 1996 | 1997 |
| Czech R. | 21.4 | 120 | -2.6 | -7.9 | (1) (2) (3) (4) (5) |
| Hungary | 14.6 | 66 | -6.3 | -3.8 | (1) (2) (3) (4) (5) |
| Poland | 19.7 | 52 | -1.0 | -0.1 | (1) (2) (3) (4) (5) |
| Slovenia | 12.2 | 98 | 1.3 | 0.2 | (2) (3) (4) |
| Estonia | 27.9 | 160 | -7.1 | -6.8 | (3) (4) |
| Romania | 14.1 | 60 | -2.6 | -2.7 | (2) (3) |
| Slovak R. | 17.9 | 126 | 0.4 | -7.9 | (2) (3) |
| Bulgaria | 5.0 | 64 | -0.6 | -1.7 | (2) (3) |
| Latvia | 10.5 | 100 | -3.1 | -4.0 | (3) |
| Lithuania | 14.8 | 60 | -3.5 | -2.6 | (3) |
| Albania | 27.6 | 52 | -11.0 | -9.9 | |
| Croatia | 4.8 | 98 | -2.4 | -7.1 | |
| Macedonia | -6.0 | 90 | -9.6 | -15.0 | |
| Armenia | 19.3 | 74 | -30.5 | -29.5 | |
| Azerbaijan | 5.6 | 80 | -14.8 | -19.1 | |
| Belarus | 18.9 | 78 | -7.6 | -9.5 | |
| Georgia | -5.0 | 30 | -19.7 | -7.7 | |
| Kazakhstan | 3.8 | 62 | -5.0 | -4.5 | |
| Kyrgyz R. | 13.7 | 88 | -20.4 | -29.0 | |
| Moldova | 20.2 | 106 | -6.1 | -8.6 | |
| Russia | 17.5 | 32 | 1.2 | 2.1 | |
| Tajikistan | 3.3 | 330 | -8.5 | -- | |
| Turkmenistan | -15.5 | 354 | 3.3 | 2.0 | |
| Ukraine | 3.2 | 88 | -4.7 | -2.8 | |
| Uzbekistan | 11.0 | 60 | -2.7 | -8.2 | |
| <hr/> | | | | | |
| CEE & NIS | 13.3 | 65 | -2.7 | -2.6 | |
| N.Tier CEE | 18.5 | 74 | -2.1 | -2.6 | |
| S.Tier CEE | 11.2 | 66 | -3.2 | -4.2 | |
| NIS | 12.2 | 62 | -2.7 | -2.3 | |
| EU | 6.9 | 57 | 0.6 | 1.0 | |
| Advanced Economies | 7.4 | 44 | -0.3 | -0.3 | |

Benchmarks (a) 3 yr ave. export growth >5%; (b) 3 yr. current acct bal. no worse than -5%;

¹ EBRD, *Transition Report Update 1997* (April 1997), IMF, *World Economic Outlook* (May 1997), and World Bank, *World Development Report 1997* (April 1997). 1994-96 indicators are average annual figures. Openness to trade is exports plus imports as % of GDP. Institutional integration refers to memberships or participation in OECD (1), WTO (2), and Europe Agreements with EU (3); invited to participate in the next round of negotiations towards EU membership (4); invited to join NATO (5).

Table 16. *Integration into the World Economy (II)*¹

| | Foreign Direct Investment (per capita) | | External Debt Gross Debt (% exports) | | Debt Service (% exports) |
|----------------------|-------------------------------------------|------|--------------------------------------------|---------|-----------------------------|
| | 1989-96 | 1996 | 1996 | 1991-96 | 1995/96 |
| Czech R. | 642 | 117 | 60 | -11 | 8.7 |
| Hungary | 1,288 | 184 | 201 | -18 | 39.1 |
| Poland | 128 | 60 | 112 | -196 | 12.2 |
| Romania | 63 | 24 | 98 | +47 | 10.6 |
| Slovak R. | 144 | 28 | 49 | -32 | 9.7 |
| Slovenia | 366 | 80 | 30 | +30 | 6.7 |
| Bulgaria | 54 | 18 | 160 | -227 | 18.8 |
| Estonia | 459 | 45 | 11 | +11 | 0.8 |
| Latvia | 234 | 68 | 23 | +23 | 1.6 |
| Lithuania | 83 | 21 | 32 | +30 | 1.4 |
| Albania | 92 | 30 | 242 | -360 | 1.0 |
| Croatia | 118 | 63 | 70 | -275 | 5.7 |
| Macedonia | 18 | -- | 129 | +129 | 11.8 |
| Armenia | 13 | 9 | 158 | +158 | 2.9 |
| Azerbaijan | 123 | 80 | 47 | +47 | -- |
| Belarus | 11 | 2 | 52 | +51 | -- |
| Georgia | 10 | 7 | 253 | +253 | -- |
| Kazakstan | 165 | 56 | 56 | +24 | 4.6 |
| Kyrgyz R. | 33 | 7 | 164 | +163 | 4.8 |
| Moldova | 35 | 11 | 128 | +128 | 8.0 |
| Russia | 34 | 11 | 126 | -29 | 10.0 |
| Tajikistan | 10 | 2 | -- | -- | -- |
| Turkmenstan | 111 | 32 | -- | -- | -- |
| Ukraine | 23 | 9 | 43 | +43 | 5.3 |
| Uzbekistan | 15 | 2 | 38 | +38 | 6.0 |
| CEE & NIS | 105 | 28 | 101 | -19 | 10 |
| N.Tier CEE | 375 | 81 | 101 | -105 | 14 |
| S.Tier CEE | 68 | 28 | 120 | -74 | 11 |
| NIS | 40 | 14 | 98 | +12 | 8 |
| Developing Countries | | | 159 | | 23 |

Benchmarks (a) below the moderately indebted threshold (i.e., debt < 132% of exports); (b) debt service less than 20%

¹ EBRD, *Transition Report Update 1997* (April 1997), IMF, *World Economic Outlook* (May 1997), and World Bank, *World Development Report 1997* (April 1997). 1989-1996 FDI figures are cumulative; 1991-96 debt to export figures are the difference between 1991 and 1996.

2. Social Conditions

Ultimately, the sustainability of the transition hinges on the well-being of the individual. Humanitarian considerations are important. However, equally if not more compelling are the links between living standards, popular expectations, and the level of public support for economic and political reforms--reforms which have coincided with, if not contributed to, both a dramatic initial drop in overall income and significant increases in income inequalities and poverty.

Tables 17 through 23 highlight social conditions. Unemployment needs to be a concern. It is a new phenomenon for the region, and, as Table 17 highlights, it is significant, at least in CEE. The good news may be that the unemployment rate in CEE seems to be declining; 1993 looks to be the peak year. Also, it is interesting to note that the CEE average of roughly eleven percent is on par with the unemployment rate in the EU.

The average CEE unemployment rate masks wide variation. The unemployment rate in Macedonia may be as high as one in three persons in the labor force. In contrast, the official unemployment rate in the Czech Republic is less than four percent. The official unemployment rates in the Baltics are also low, though this may reflect in part the relatively flawed system of data collection inherited from the Soviet Union.

Measuring unemployment through surveys--rather than using the more commonly-available official registered unemployment figures--tends to uncover a larger problem. For example, the official unemployment rate in Romania in 1996 was six percent. A household survey conducted in the early part of 1996, however, revealed unemployment to be closer to fifteen percent; that is, roughly half of those unemployed did not register as such.¹²

The official unemployment figures in the NIS are generally much lower than in CEE. This may reflect a combination of phenomena. One may be poorer data collection techniques. More significant is likely to be the tendency for labor markets to adjust differently in the NIS at this point in the transition. In short, underemployment (in the form of fewer work hours, involuntary leave and wage arrears) in the NIS may to some extent exist in lieu of greater open unemployment. The degree of open unemployment currently experienced in CEE may be a reflection of what is to come in the NIS. Similarly, the lower open

¹²For further elaboration and evidence on the discrepancy between official and survey unemployment rates, see *Labor Markets in CEE: Employment, Unemployment, and Labor Hoarding*, No.2, for USAID/ENI/PCS (February 1995).

unemployment in the NIS may be an indication of less progress in the restructuring process.¹³

While the number of unemployed in CEE has not changed dramatically from year to year, a critical consideration is whether these figures represent the same people. In other words, how long are people typically unemployed? With safety nets disappearing, we know that unemployment is a crucial determinant towards poverty.

Monitoring long-term unemployment is hence important, and *Table 18* addresses this aspect in part. Many data gaps exist and we can only sketch a rough picture. Almost one in two persons unemployed in 1995 in the ten countries for which data are available were unemployed for more than one year. This represents a large increase from 1992 when one in five of the unemployed were long-term unemployed. It is interesting to note that this rising share of long-term unemployed is not solely a transition phenomenon; countries of Western Europe are also experiencing it.

Long-term unemployment may be particularly troublesome for Macedonia and Albania, though more recent data is needed to confirm this. In 1993, eighty-seven percent of those unemployed in Macedonia were unemployed for more than one year. With very high total unemployment, this translates into very high long-term unemployment: twenty-four percent. In 1993, fifteen percent of Albania's labor force (or sixty-five percent of all those unemployed) had been unemployed for more than one year.

Tables 19 and *20* shed light on living standards through indicators of income. The first observation is that the average income in the transition economies is significantly below that in the advanced economies. In purchasing power parity (PPP) terms, average income in ENI is less than one-fifth the EU average. Furthermore, average income varies widely among ENI countries. Per capita income in the Czech Republic (and possibly Slovenia) may exceed \$10,000 in PPP terms; it is probably close to \$1,000 in Tajikistan and Azerbaijan (and possibly Albania). Average income of the Northern Tier countries may be almost two times greater than per capita income of the rest.¹⁴

¹³There may be some credible concern that the low unemployment rate in the Czech Republic is similarly a reflection in part of an incomplete economic restructuring process.

¹⁴Income calculated by using official exchange rates shows average income in the Southern Tier countries and the NIS to be comparable on average. It may be more accurate to use this dataset for this comparison instead of the PPP income figures,

What may be more important for our purposes is how the income levels have changed during the transition, and how it has been distributed within countries. Other things equal, the greater the income disparities and collapse in incomes, the more pronounced are the hardships and the greater is the likelihood of "reform fatigue".

In this regard, it is significant to note (as shown in Table 19) that only Poland has regained its pre-transition income level. Slovenia is close behind. For the CEE region as whole, 1996 income is almost ninety percent of 1989 income. Three CEE countries--Macedonia, Latvia, and Lithuania--have incomes significantly below pre-transition levels. This likely translates into significant hardships for some. For the NIS, 1996 income relative to income in 1989 is considerably lower still; roughly one-half the pre-transition level.

We can fill in the picture further with income distribution data. In general, while income inequality has increased dramatically over the transition, the degree of inequality for most transition countries is below that found in most other regions of the world. These were highly egalitarian societies prior to the collapse of communism.

In CEE overall, the twenty percent of the population with the highest income receives roughly three times as much as the poorest twenty percent. This compares to a six-to-one ratio in the EU, and, where global inequality remains the highest, nineteen-to-one in Latin America.

The income distribution in Russia, in contrast, is perhaps as unequal as anywhere in the world. In fact by gini coefficient measures, income inequality in Russia is comparable to that found in Brazil.

Poverty has increased substantially in ENI as shown in Table 20. In fact, the overall poverty estimates tend to be quite low relative to some others. UNICEF, for example, cites a percentage point increase in poverty rates from 1989 to 1994 in: Lithuania by 64.7 percent; Latvia by 55.1 percent; Moldova by 54.9 percent; Azerbaijan by 50 percent; Bulgaria by 49.7 percent; Estonia by 46.0 percent; Russia by 45.5 percent; Romania by 31.7 percent; Slovak Republic by 27.2 percent; Czech Republic by 22.5 percent;

since key data are missing in the PPP dataset.

Hungary by 12.4 percent; and Poland by 12.2 percent.¹⁵

According to World Bank estimates, one in three persons in ENI are poor. However, this average masks very wide variation, by country and by groups within countries. Poverty remains negligible in Slovenia, the Czech Republic, and the Slovak Republic. In contrast, roughly one out of two persons are considered poor by this standard in Turkmenistan, Kazakstan, and Lithuania. The ratio is apparently even higher in the Kyrgyz Republic and Moldova.

One reason why the poverty estimates vary widely by country is because the poverty is apparently shallow in most of the region.¹⁶ That is, many of the poor are only marginally so, and a relatively small change in the poverty line, can result in a relatively large change in the poverty rate.¹⁷ There may be a significant turnover among those found in poverty as well.¹⁸ Both trends have favorable implications for policy; both need to be explored further.

Table 20 also reveals, however, that a disproportionate burden from poverty is placed on different segments of society. The poverty estimates for children and the elderly cannot be directly compared with the country-wide estimates since the methods to calculate are different. A comparison between poverty among children with that of the elderly and how those rates have changed since 1989, however, is very revealing.

In general, the data suggest that poverty is much greater among

¹⁵UNICEF, *Poverty, Children and Policy: Responses for a Brighter Future*, Economies in Transition Studies, Regional Monitoring Report No. 3 (1995). If Lithuania's poverty rate in 1989 was 5%, its 1994 poverty rate by this count would be 70%.

¹⁶Romania is likely an exception. A recent World Bank study on poverty in Romania reveals few but deep pockets of poverty in Romania.

¹⁷A World Bank study cites an increase in poverty in Hungary from 2% in 1989 to over 8% in 1993, using the minimum pension as the poverty line. A poverty line set at roughly one and half times the minimum pension, however, translates into a poverty rate from less than 5% in 1989 to anywhere from 33-40% in 1993. World Bank, *Hungary: Poverty and Social Transfers* (March 14, 1996).

¹⁸This conclusion at any rate would seem to apply to Russia. See: World Bank, *Poverty in Russia: An Assessment*, Human Resources Division, June 1995.

children than it is among the elderly. This is the case in six of the eight countries for which data exist for 1992-1995. By this measure, poverty among Russian children increased from forty percent to over sixty percent since roughly 1990; from two percent to over forty percent in Bulgaria; nine percent to thirty-five percent in Romania; eight percent to twenty percent in Poland.

Poverty rates for the elderly on average in this limited sample are one-half that of children. Among the Northern Tier countries, poverty among the elderly is low and may actually be decreasing: four percent in 1989-1992 to three percent in 1992-1995. It may be that the elderly in some of these countries remain politically strong enough to be able to favorably influence pension rates and eligibility.

Table 21 highlights trends in infant mortality and life expectancy. The news is mixed and widely varied. Infant mortality is significantly lower in the Northern Tier countries than it is in the Southern Tier and the NIS. The Northern Tier rate is comparable to the OECD average (though still double the EU average). Furthermore, Northern Tier infant mortality rates have fallen the most overall of the three transition regions.

Five countries witnessed an increase in infant mortality from 1991-1995: Croatia by thirty-three percent; Georgia by twenty percent; Moldova by ten percent; Belarus by eight percent; and Ukraine by seven percent. Infant mortality remains particularly high in Turkmenistan (forty-six deaths per 1,000 live births), and Tajikistan (forty-two), and, to a lesser extent, in Uzbekistan, the Kyrgyz Republic, and Albania (all three at thirty deaths).

Life expectancy in CEE is seventy-one years, six years below the EU average. In the NIS, life expectancy, at sixty-seven, is lower still. Five countries have experienced a decrease in life expectancy from 1991 to 1995. Life expectancy in Poland, Lithuania, Ukraine, and Tajikistan has decreased by one year since 1991; in Russia, it has dropped by at least two years.

As with physical capital, human capital is important for its direct effect on economic sustainability. It too, however, can provide indications of trends in living standards. Table 22 provides some evidence, though many data gaps exist. In particular, the secondary school enrollment percentages remain quite high in the region, and not far from that found in the EU. Secondary school enrollment may actually be higher in the NIS than in CEE. Macedonia is the outlier: roughly one in two secondary school age children were not enrolled in school in Macedonia in 1993.

While there has been some concern that enrollments may be deteriorating in the region, the evidence provides a mixed picture. Of the eight countries for which time series data are available, enrollments have increased between 1990 and 1993 in four of them. However, three countries may have experienced significant declines: Ukraine by fifteen percent; Russia and Bulgaria by seven percent.

Table 22 also highlights trends in the UNDP's Human Development Index (HDI). The HDI is based on three indicators: longevity, as measured by life expectancy; educational attainment, as measured by a combination of adult literacy (two-thirds weight), and combined primary, secondary and tertiary enrollment ratios (one-third weight); and standard of living, as measured by real GDP per capita (PPP\$). The HDI ranges from 0 to 1; the higher is the value, presumably the greater is the human development.

The UNDP classifies 175 countries into three categories in the *Human Development Report 1997*: high; medium; and low human development. It is based on 1994 data. Human development is considered to be high in six ENI countries (Slovenia, Czech Republic, Slovak Republic, Hungary, Poland, and Belarus), and medium in the rest. Belarus' classification may be surprising, though it scores relatively high on most of the components of the HDI; on life expectancy, literacy, and enrollment ratio.

HDI trends over time may be revealing, though more recent data would be helpful. The large majority of the transition countries saw their global ranking deteriorate from 1993 to 1994, though some of this is attributed to an increase in sample size in the most recent calculations. Perhaps more revealing is the trends in the scores from year to year. All the CEE countries (for which data are available) showed an increase in the HDI score from 1993 to 1994 except Latvia. In contrast, all the NIS saw a decrease in the HDI score from 1993 to 1994 except Belarus and Turkmenistan.

Finally, Table 23 sheds some light on environmental developments. Environmental degradation was pervasive under central planning. A focus on maximizing production with little or no regard for environmental consequences and with a strong emphasis on heavy industry and highly energy-intensive methods contributed to much of this. Obviously, quality of life and support for the transition are part of the issue here. However, increasing productivity and efficiency are also important.

Integral to this for the CEE countries in particular is membership into the EU which will require gradual adaption of the EU's environmental regulations. Substantial investments will likely need to accompany the establishment of a viable regulatory regime and appropriate energy prices. A 1993 study of six CEE

countries (Bulgaria, the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic) estimated environmental investments of fifteen to twenty percent of GDP to bring them up to EU standards.¹⁹

While we have far to go towards better monitoring the environment in the transition economies, Table 23 fills in a small part of the picture by addressing in part environmental efficiency and quality. More efficient use of natural resources (that is, greater environmental efficiency) should translate into lower pollution, at least on a unit of production basis. Energy and water use intensity seem to be reasonable measures of this efficiency.

For this measure, electricity intensity of output in 1994 is examined. The electric power sector is a major source of air pollution in ENI, particularly in those countries that rely primarily on coal, lignite, and oil shale as their primary energy source.

Table 23 reveals substantial differences in electricity intensity of output in 1994 between the ENI countries and the industrial market economies, as well as within ENI. Electricity intensity in CEE is twice as high as that found in the EU; in the NIS, it is more than three times higher. Electricity intensity is highest in ENI in the Central Asian Republics and Azerbaijan where energy resources are plentiful. Electricity intensity is highest among CEE countries in Bulgaria and Lithuania which rely heavily on nuclear power generation (and where nuclear safety needs to be a big concern).

Table 23 also shows 1992 carbon dioxide emissions per unit of GDP, and annual mean concentrations of three common air pollutants--sulphur dioxide, nitrogen dioxide, and total suspended particulates--in parts per million for major cities in eighteen ENI and eight Western Europe countries for the period 1990-1992. Such emissions are used as proxies for environmental quality. Bearing in mind the many data gaps, and widely varying results per city, the regional averages in sulphur dioxide and nitrogen dioxide emissions in the early transition years are roughly comparable between ENI and the EU. In contrast, TSP concentrations were twice as high in ENI vis-a-vis Western Europe, and carbon dioxide emissions per GDP many multiples higher in ENI.

¹⁹Environmental Resource Management, *Environmental Standards and Legislation in Western and Eastern Europe: Towards Harmonization*, Final Report prepared for EBRD/EU-Phare, December 1993.

A 1994 Bureau of Census study reported a decrease in air pollution emissions in several CEE countries (with the apparent exception of the Czech Republic) in the early transition years.²⁰ Such a trend, however, is likely attributed in large part to an overall drop in production. More recent figures might reveal increasing pollution coinciding with economic growth.

²⁰Bureau of Census, *Populations at Risk in CEE: An Overview*, No. 1, prepared for USAID/ENI/PCS (November 1994).

Table 17. Unemployment rate¹

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | '94-96 ave. ² |
|--------------------|------|------|------|------|------|------|-----------------------------|
| CEE: | | | | | | | |
| Czech Rep. | 4.1 | 2.6 | 3.5 | 3.2 | 2.9 | 3.5 | 3.2 |
| Lithuania | 0.3 | 1.3 | 4.4 | 3.8 | 6.2 | 6.4 | 5.5 |
| Estonia | -- | -- | 5.0 | 5.1 | 5.0 | 5.0 | 5.0 |
| Latvia | -- | 2.3 | 5.8 | 6.5 | 6.6 | 7.2 | 6.8 |
| Romania | 3.0 | 8.1 | 10.2 | 11.0 | 8.9 | 6.1 | 8.7 |
| Hungary | 7.5 | 12.3 | 12.1 | 10.4 | 10.4 | 10.5 | 10.4 |
| Croatia | 14.9 | 15.3 | 14.8 | 14.5 | 14.5 | 15.7 | 14.9 |
| Bulgaria | 11.5 | 15.6 | 16.4 | 12.8 | 10.5 | 12.5 | 11.9 |
| Slovak Rep. | 11.8 | 10.3 | 14.4 | 14.8 | 13.1 | 12.8 | 13.6 |
| Slovenia | 8.2 | 11.6 | 14.4 | 14.4 | 13.9 | 13.5 | 13.9 |
| Poland | 11.8 | 13.6 | 15.7 | 16.0 | 14.9 | 14.3 | 15.1 |
| Albania | 9.1 | 26.5 | 22.3 | 18.3 | 12.9 | -- | 15.6 |
| Macedonia | 24.5 | 26.2 | 27.7 | 29.0 | 35.6 | -- | 32.3 |
| NIS: | | | | | | | |
| Armenia | 4.0 | 19.0 | 26.0 | -- | 8.0 | -- | -- |
| Azerbaijan | -- | -- | -- | -- | -- | -- | -- |
| Belarus | -- | 0.5 | 1.4 | 2.1 | 2.8 | 4.2 | 3.0 |
| Georgia | -- | 5.4 | 8.4 | -- | -- | -- | -- |
| Kazakhstan | 0 | 0.5 | 0.6 | 1.6 | 2.4 | 3.5 | 2.5 |
| Kyrgyz Rep. | -- | -- | -- | -- | -- | -- | -- |
| Moldova | -- | -- | -- | -- | -- | -- | -- |
| Russia | -- | -- | 5.5 | 7.1 | 8.2 | 9.3 | 8.2 |
| Tajikistan | -- | -- | -- | -- | -- | -- | -- |
| Turkmenistan | -- | -- | -- | -- | -- | -- | -- |
| Ukraine | 0 | 0.3 | 0.4 | 0.4 | 0.6 | 1.2 | 0.7 |
| Uzbekistan | 0 | 0.1 | 0.2 | 0.4 | 0.4 | -- | -- |
| <hr/> | | | | | | | |
| N.Tier CEE | 9.3 | 10.5 | 12.3 | 12.2 | 11.5 | 11.3 | 11.7 |
| S.Tier CEE | 7.7 | 12.8 | 13.8 | 13.3 | 11.6 | 10.6 | 11.8 |
| <hr/> | | | | | | | |
| Advanced Economies | | 7.3 | 7.7 | 7.6 | 7.3 | 7.3 | 7.4 |
| U.S. | | 7.5 | 6.9 | 6.1 | 5.6 | 5.4 | 5.7 |
| EU | | 9.9 | 11.1 | 11.6 | 11.2 | 11.3 | 11.4 |
| Benchmarks | | | | | | 11.0 | 14.0 |

¹EBRD, *Transition Report Update 1997* (April 1997); IMF, *World Economic Outlook* (May 1997); C. Allison and D. Ringold, *Labor Markets in Transition in Central and Eastern Europe: 1989-1995*, World Bank, Social Challenges of Transition Series (December 1996); Bureau of Census, *Populations at Risk in CEE: Labor Markets*, No 2, for USAID/ENI/PCS (February 1995); and Economist Intelligence Unit, *Country Reports* (various countries).

²1994-95 average for Albania and Macedonia.

Table 18. Long-term Unemployment in CEE¹

| | (% of labor force) | | | | (% share of total unemployed) | | | | 92/93-94/95 Percent Change |
|-----------|--------------------|------|------|------|-------------------------------|------|------|------|----------------------------------|
| | 1992 | 1993 | 1994 | 1995 | 1992 | 1993 | 1994 | 1995 | |
| Albania | -- | 14.5 | -- | -- | -- | 65 | -- | -- | -- |
| Bulgaria | -- | 8.7 | 7.6 | 6.9 | -- | 53 | 59 | 66 | 25 |
| Croatia | 8.9 | 8.6 | 8.0 | -- | 58 | 58 | 55 | -- | -5 |
| Czech R. | 0.4 | 0.7 | 0.7 | 0.9 | 14 | 19 | 22 | 31 | 121 |
| Estonia | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Hungary | 2.2 | 4.0 | 4.3 | 5.0 | 18 | 33 | 41 | 48 | 167 |
| Latvia | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Lithuania | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Macedonia | 22.5 | 24.1 | -- | -- | 86 | 87 | -- | -- | -- |
| Poland | 3.3 | 5.7 | 6.1 | 6.3 | 24 | 36 | 38 | 42 | 75 |
| Romania | 1.7 | -- | 5.0 | 4.2 | 21 | -- | 45 | 47 | 124 |
| Slovak R. | -- | 4.8 | 6.4 | 7.1 | -- | 33 | 43 | 54 | 64 |
| Slovenia | 5.3 | 7.9 | 8.2 | 7.4 | 46 | 55 | 57 | 53 | 15 |
| CEE | 2.6 | 6.1 | 5.3 | 5.3 | 20 | 39 | 41 | 47 | 135 |
| France | 3.7 | 3.9 | 4.7 | 5.3 | 36 | 34 | 38 | 46 | 28 |
| Germany | 2.5 | 3.6 | 4.2 | 4.5 | 33 | 40 | 44 | 48 | 46 |
| Spain | 8.6 | 11.4 | 13.6 | 13.1 | 47 | 50 | 56 | 57 | 21 |
| Sweden | 0.4 | 0.9 | 1.4 | 1.2 | 8 | 11 | 17 | 16 | 100 |

Benchmark Long-term unemployment less than 8%
of the labor force

¹C. Allison and D. Ringold, *Labor Markets in Transition in Central and Eastern Europe: 1989-1995*, World Bank, Social Challenges of Transition Series (December 1996), and Bureau of Census, *Populations at Risk in CEE: Labor Markets*, No 2, prepared for USAID/ENI/PCS (February 1995). The long-term unemployed are those unemployed for more than one year.

Table 19. *Income & its Distribution*¹

| | 1996 Average Income | | Distribution of Income | | 1996/1989 GDP (%) |
|--------------------|------------------------------------|--------|------------------------|-------|-------------------|
| | US\$ | PPP\$ | 89/90 | 92/93 | |
| Poland | 2,960 | 5,720 | 2.4 | 3.0 | 104 |
| Slovenia | 8,490 | -- | 2.7 | 3.1 | 96 |
| Slovak R. | 3,150 | 3,855 | 2.4 | 2.5 | 90 |
| Czech R. | 4,030 | 10,160 | 2.4 | 3.2 | 89 |
| Romania | 1,540 | 4,550 | 2.0 | 2.8 | 88 |
| Albania | 730 | -- | -- | -- | 87 |
| Hungary | 4,140 | 6,440 | 3.4 | 3.7 | 86 |
| Uzbekistan | 990 | 2,410 | -- | -- | 84 |
| Croatia | 3,400 | -- | 3.1 | 3.4 | 70 |
| Estonia | 2,950 | 4,360 | -- | 7.0 | 69 |
| Bulgaria | 1,200 | 4,032 | 2.6 | 3.3 | 68 |
| Belarus | 2,120 | 4,330 | -- | 3.0 | 63 |
| Turkmenistan | 880 | -- | -- | 6.4 | 57 |
| Macedonia | 890 | -- | -- | 3.5 | 56 |
| Latvia | 2,320 | 3,450 | -- | 3.8 | 52 |
| Kyrgyz R. | 1,800 | 1,900 | -- | -- | 52 |
| Russia | 2,110 | 4,210 | -- | 14.5 | 51 |
| Kazakstan | 1,350 | 3,050 | -- | 5.4 | 45 |
| Ukraine | 1,470 | 2,160 | -- | 3.7 | 42 |
| Lithuania | 1,960 | 4,240 | -- | 5.2 | 42 |
| Armenia | 760 | 2,360 | -- | -- | 39 |
| Azerbaijan | 490 | 1,480 | -- | -- | 38 |
| Tajikistan | 320 | 860 | -- | -- | 37 |
| Moldova | 850 | -- | -- | 6.0 | 35 |
| Georgia | 490 | 1,620 | -- | -- | 31 |
| <hr/> | | | | | |
| CEE & NIS | 1,980 | 3,630 | -- | 8.3 | 62 |
| N.Tier CEE | 3,360 | 5,970 | 2.6 | 3.3 | 93 |
| S.Tier CEE | 1,590 | 4,410 | 2.3 | 3.0 | 80 |
| NIS | 1,670 | 3,260 | -- | 10.7 | 51 |
| <hr/> | | | | | |
| Advanced Economies | 25,100 | 21,600 | | | |
| EU | 21,830 | 19,540 | 6.0 | | |
| Benchmark | (a) current yr GDP 85% of 1989 GDP | | | | |

¹World Bank, *World Development Report 1997* (June 1997), J. Rutkowski, *Changes in the Wage Structure during Economic Transition in CEE*, Social Challenges of Transition Series (October 1996), and EBRD, *Transition Report Update 1997* (April 1997). Average income: (1) in US\$ converting through official exchange rates; (2) in 1995 purchasing power parity per capita income figures updated to 1996 from real economic growth estimates. Income distribution: income of the 20% of the population with the highest income to income of the lowest-income 20% of the population.

Table 20. Poverty¹

| | Children | | Elderly | | Overall Poverty Rates | |
|--------------|----------|---------|---------|---------|-----------------------|---------|
| | 1989-92 | 1992-95 | 1989-92 | 1992-95 | 1987-88 | 1993-95 |
| Slovenia | 8 | -- | 7 | -- | 0 | 1 |
| Czech R. | 0 | 1 | 0 | 1 | 0 | 1 |
| Slovak R. | 0 | 9 | 0 | 1 | 0 | 1 |
| Hungary | 2 | 7 | 1 | 1 | 1 | 6 |
| Belarus | -- | -- | -- | -- | 1 | 11 |
| Poland | 8 | 20 | 5 | 3 | 6 | 12 |
| Latvia | 51 | -- | 15 | -- | 1 | 19 |
| Estonia | 27 | 34 | 38 | 38 | -- | 23 |
| Uzbekistan | -- | -- | -- | -- | 24 | 29 |
| Romania | 9 | 35 | 12 | 19 | 6 | 32 |
| Bulgaria | 2 | 43 | 4 | 28 | 2 | 33 |
| Russia | 40 | 62 | 23 | 34 | 2 | 38 |
| Ukraine | -- | -- | -- | -- | 2 | 41 |
| Turkmenistan | -- | -- | -- | -- | 12 | 48 |
| Lithuania | -- | -- | -- | -- | 1 | 49 |
| Kazakstan | -- | -- | -- | -- | 5 | 50 |
| Moldova | 3 | -- | 3 | -- | 4 | 65 |
| Kyrgyz R. | -- | -- | -- | -- | 12 | 76 |
| Azerbaijan | 73 | -- | 65 | -- | -- | -- |
| Albania | -- | -- | -- | -- | -- | -- |
| Croatia | -- | -- | -- | -- | -- | -- |
| Macedonia | -- | -- | -- | -- | -- | -- |
| Armenia | -- | -- | -- | -- | -- | -- |
| Tajikistan | -- | -- | -- | -- | -- | -- |
| Georgia | -- | -- | -- | -- | -- | -- |
| <hr/> | | | | | | |
| CEE & NIS | 28 | 44 | 17 | 23 | 4 | 33 |
| N.Tier CEE | 7 | 12 | 4 | 3 | 3 | 11 |
| S.Tier CEE | 7 | 37 | 10 | 21 | 5 | 32 |
| NIS | 41 | 62 | 24 | 34 | 4 | 39 |
| UK | | | | | 1 | |
| Turkey | | | | | 31 | |
| Malaysia | | | | | 15 | |
| Brazil | | | | | 33 | |

¹B. Milanovic, *Income, Inequality, and Poverty during the Transition*, Research Paper Series No. 11, World Bank (1996); UNICEF, *Poverty, Children and Policy: Responses for a Brighter Future*, Economies in Transition: Regional Monitoring Report 3, (1995); UNDP, *Human Development Report 1997* (May 1997); and Bureau of Census, *Populations at Risk*, No. 5, for ENI/PCS/PAS (July 1996). The two poverty measures are not directly comparable: (1) overall poverty rates: % of population below poverty line of \$120 at 1990 international prices per cap. per month; (2) for children & elderly, the poverty threshold is roughly 25% of the average 1989 wage.

Table 21. Infant Mortality and Life Expectancy¹

| | Infant Mortality | | | Life Expectancy | | |
|---------------|------------------|------|----------------|-----------------|------|----------------|
| | 1991-93 | 1995 | Percent Change | 1991-93 | 1995 | Percent Change |
| Slovenia | 8 | 7 | -13 | 73 | 74 | 1.4 |
| Croatia | 12 | 16 | 33 | 73 | 74 | 1.4 |
| Czech Rep. | 10 | 8 | -20 | 72 | 73 | 1.4 |
| Macedonia | 28 | 23 | -18 | 72 | 73 | 1.4 |
| Slovak Rep. | 12 | 11 | -8 | 71 | 72 | 1.4 |
| Hungary | 14 | 11 | -21 | 69 | 70 | 1.4 |
| Uzbekistan | 35 | 30 | -14 | 69 | 70 | 1.4 |
| Moldova | 20 | 22 | 10 | 68 | 69 | 1.5 |
| Turkmenistan | 46 | 46 | 0 | 66 | 67 | 1.5 |
| Georgia | 15 | 18 | 20 | 73 | 73 | 0.0 |
| Albania | 32 | 30 | -6 | 73 | 73 | 0.0 |
| Armenia | 18 | 16 | -11 | 71 | 71 | 0.0 |
| Bulgaria | 16 | 15 | -6 | 71 | 71 | 0.0 |
| Estonia | 15 | 14 | -7 | 70 | 70 | 0.0 |
| Romania | 23 | 23 | 0 | 70 | 70 | 0.0 |
| Azerbaijan | 26 | 25 | -4 | 70 | 70 | 0.0 |
| Belarus | 12 | 13 | 8 | 70 | 70 | 0.0 |
| Latvia | 17 | 16 | -6 | 69 | 69 | 0.0 |
| Kazakstan | 27 | 27 | 0 | 69 | 69 | 0.0 |
| Kyrgyz R. | 31 | 30 | -3 | 68 | 68 | 0.0 |
| Poland | 14 | 14 | 0 | 71 | 70 | -1.4 |
| Lithuania | 16 | 14 | -13 | 70 | 69 | -1.4 |
| Ukraine | 14 | 15 | 7 | 70 | 69 | -1.4 |
| Tajikistan | 45 | 42 | -7 | 68 | 67 | -1.5 |
| Russia | 19 | 18 | -5 | 67 | 65 | -3.0 |
| CEE & NIS | 19.5 | 18.9 | -3 | 69.0 | 68.1 | -1.2 |
| N. Tier CEE | 13.4 | 12.4 | -8 | 70.8 | 70.6 | -0.3 |
| S.Tier CEE | 21.1 | 21.1 | 0 | 70.9 | 71.1 | 0.2 |
| NIS | 20.8 | 20.0 | -2 | 68.2 | 67.1 | -1.7 |
| LDCs | | 60 | | | 65 | |
| Middle-income | | 39 | | | 68 | |
| OECD | | 12 | | | 76 | |
| EU | | 6 | | | 77 | |
| Benchmarks | | 30 | no worsening | | 68 | no worsening |

¹World Bank, *World Development Report* (June 1997 & 1996), and UNICEF, *Poverty, Children and Policy, Economies in Transition*, No. 3 (1995). Infant mortality rate is per 1,000 live births; and life expectancy is in years. The OECD infant mortality rate average is significantly pulled up by 2 members: Turkey at 48 & Mexico at 33.

Table 22. Human Development¹

| | Secondary School enrollment (% of age group) | | | Human Development Index | | | |
|--------------|-------------------------------------------------|------|-----------------------|-------------------------|------|-------|------|
| | 1990 | 1993 | percent change | 1993 | | 1994 | |
| | | | | Score | Rank | Score | Rank |
| Slovenia | -- | 89 | -- | -- | -- | 0.886 | 35 |
| Czech R. | -- | 86 | -- | 0.872 | 37 | 0.882 | 39 |
| Slovak R. | -- | 89 | -- | 0.864 | 41 | 0.873 | 42 |
| Hungary | 79 | 81 | 3 | 0.855 | 46 | 0.857 | 48 |
| Poland | 81 | 84 | 4 | 0.819 | 56 | 0.834 | 58 |
| Belarus | 93 | 92 | -1 | 0.787 | 61 | 0.806 | 62 |
| Russia | 94 | 88 | -7 | 0.804 | 57 | 0.792 | 67 |
| Bulgaria | 73 | 68 | -7 | 0.773 | 62 | 0.780 | 69 |
| Estonia | -- | 92 | -- | 0.749 | 68 | 0.776 | 71 |
| Lithuania | -- | 78 | -- | 0.719 | 81 | 0.762 | 76 |
| Croatia | 77 | 83 | 8 | -- | -- | 0.760 | 77 |
| Romania | 92 | -- | -- | 0.738 | 74 | 0.748 | 79 |
| Macedonia | 53 | 54 | 2 | -- | -- | 0.748 | 80 |
| Turkmenistan | -- | -- | -- | 0.695 | 90 | 0.723 | 85 |
| Latvia | -- | 87 | -- | 0.820 | 55 | 0.711 | 92 |
| Kazakhstan | -- | 90 | -- | 0.740 | 72 | 0.709 | 93 |
| Ukraine | 93 | 80 | -15 | 0.719 | 80 | 0.689 | 95 |
| Uzbekistan | -- | 94 | -- | 0.679 | 94 | 0.662 | 100 |
| Albania | 78 | -- | -- | 0.633 | 104 | 0.655 | 102 |
| Armenia | -- | 85 | -- | 0.680 | 93 | 0.651 | 103 |
| Azerbaijan | -- | 88 | -- | 0.665 | 96 | 0.636 | 105 |
| Georgia | -- | -- | -- | 0.645 | 101 | 0.637 | 105 |
| Kyrgyz R. | -- | -- | -- | 0.663 | 99 | 0.635 | 107 |
| Moldova | -- | 69 | -- | 0.663 | 98 | 0.612 | 110 |
| Tajikistan | -- | -- | -- | 0.616 | 105 | 0.580 | 115 |
| CEE & NIS | 91 | 86 | | 0.75 | | 0.76 | |
| N.Tier CEE | 81 | 84 | | 0.81 | | 0.84 | |
| S.Tier CEE | 83 | 71 | | 0.74 | | 0.75 | |
| NIS | 94 | 87 | | 0.76 | | 0.74 | |
| EU | | 90 | | 0.92 | | 0.93 | |
| Thailand | | | | | | 0.83 | |
| Turkey | | | | | | 0.77 | |
| Jamaica | | | | | | 0.74 | |
| Benchmark | | | no enrollment decline | | | | |

¹World Bank, *World Development Report 1996* (June 1996) & UNDP, *Human Development Reports* (May 1997 & March 1996). The HDI ranges from 0 to 1; the higher the value, the greater the human development.

Table 23. *Environment*¹

| | <u>Quality</u> | | | | | <u>Efficiency</u> |
|--------------|---------------------|--------------------------|-----|-----|-------------|-------------------|
| | CO2 | Air Pollution | | | Electricity | Intensity |
| | Emissions (1992) | Concentrations (1990-92) | SO2 | NO2 | | |
| | | City | | | TSP | (1994) |
| Albania | 18.0 | (Tirana) | 23 | -- | 85 | 400 |
| Latvia | 2.6 | (Riga) | 4 | 60 | 100 | 450 |
| Croatia | -- | (Zagreb) | 39 | -- | 67 | 540 |
| Hungary | 2.6 | (Budapest) | 44 | 44 | 62 | 550 |
| Slovenia | -- | (Ljubljana) | 50 | 54 | 23 | 600 |
| Poland | 6.0 | (Warsaw) | 30 | 54 | -- | 650 |
| (Poland) | | (Krakow) | 47 | 31 | 54 | |
| Belarus | 4.0 | (Minsk) | 20 | 37 | 100 | 700 |
| Armenia | 1.8 | -- | -- | -- | -- | 700 |
| Slovak R. | 2.5 | (Bratislava) | 20 | -- | 58 | 700 |
| Czech R. | 4.4 | (Prague) | 75 | 56 | 84 | 710 |
| Estonia | 4.9 | -- | -- | -- | -- | 750 |
| Romania | 4.5 | (Bucharest) | 40 | 36 | 130 | 840 |
| Moldova | -- | (Chisinau) | 2 | 20 | -- | 850 |
| Uzbekistan | 8.5 | -- | -- | -- | -- | 860 |
| Lithuania | 3.1 | (Vilnius) | -- | 27 | -- | 950 |
| Bulgaria | 2.4 | (Sofia) | 31 | 53 | 170 | 1000 |
| Russia | 5.5 | (Moscow) | -- | 76 | 100 | 1100 |
| (Russia) | | (St. Peters) | 5 | 58 | 90 | |
| Ukraine | 6.9 | (Kiev) | 13 | 50 | 100 | 1180 |
| (Ukraine) | | (Odessa) | 44 | 97 | 270 | |
| Macedonia | -- | -- | -- | -- | -- | 1200 |
| Georgia | 3.0 | -- | -- | -- | -- | 1300 |
| Kyrgyz R. | 4.3 | -- | -- | -- | -- | 1300 |
| Azerbaijan | 13.6 | -- | -- | -- | -- | 1400 |
| Kazakstan | 12.6 | -- | -- | -- | -- | 1400 |
| Turkmenistan | -- | -- | -- | -- | -- | 1900 |
| Tajikistan | 1.6 | -- | -- | -- | -- | 2005 |
| CEE & NIS | 5.6 | | 21 | 59 | 106 | 1010 |
| N.Tier CEE | 4.7 | | 43 | 45 | 61 | 660 |
| S.Tier CEE | 4.7 | | 37 | 41 | 127 | 820 |
| NIS | 6.2 | | 11 | 65 | 117 | 1130 |
| EU | 0.6 | | 23 | 55 | 50 | 350 |

¹EBRD, *Transition Report 1996* (November 1996), & UNDP, *Human Development Report 1997* (May 1997). 1992 CO2 emissions per unit of GDP. Air pollution concentrations are annual mean concentrations of sulphur dioxide (SO2), nitrogen dioxide (NO2), and total suspended particulates (TSP) in parts per million for major cities for the period 1990-92 (EU aves. stem from concentrations in 8 countries). Electricity intensity refers to 1994 electricity consumption per US\$ 1,000 of GNP at PPP exchange rates (1993 for Tajikistan, Turkmenistan, Georgia, Uzbekistan, and Albania).

IV. Concluding Remarks

Decisions on the magnitude and duration of U.S. assistance to the ENI region are made on the basis of several factors:

- (a) progress the country has made toward a sustainable transition to a market-based democracy;
- (b) strategic importance of the country to the United States;
- (c) importance of the recipient country to U.S. citizens; and
- (d) effectiveness of particular assistance activities.

This paper has presented an approach to analyzing the first factor. The second and third are not as readily quantifiable but are matters of judgment that are regularly considered, along with the first, in making country-level budget decisions. The fourth factor, based on both regular reporting against strategic objective targets and on occasional field-based evaluations, is used primarily to inform the allocation of country budget levels among strategic objectives but is also a basis for determining whether a country assistance program is having enough impact to warrant continuation.

USAID will collect, analyze, and report on the country performance indicators two times a year: (a) each winter prior to the spring USAID review of mission strategies and USAID performance monitoring (and subsequent to EBRD's annual update of its economic policy indicators); and (b) each summer after Freedom House presents its annual democracy ratings. These data will also be provided to the State Department-based Coordinators for U.S. Assistance to CEE and the NIS and discussed with them when country planning levels are determined.

The overall rankings of the ENI countries in terms of economic policy reforms and democratic freedoms (as depicted in Table 9) provide a rough guide to policy in this regard. Countries ranked near the top of the list are obvious candidates for earlier "graduation". Countries near the bottom of the list would seem to fall into one of three contrasting categories: (1) those where assistance is least likely to be effective, in which case it may make sense to close those programs down altogether or to keep highly targeted funding at minimal levels until their commitment to reform increases; (2) those where reform now appears likely but requires greater resources; or (3) those which possess characteristics that match well with the Agency's priorities for sustainable development programs. Countries in the middle of the list are likely candidates for continuing programs through existing funding mechanisms, as long as the assistance is effective and Congress continues to appropriate funds for this

purpose.

In addition, by looking beyond the aggregate rankings and developing a decision tree methodology, this paper attempts to more rigorously devise criteria towards graduation from U.S. assistance. First, do the countries achieve some acceptable level of progress in both economic policy reforms and democratization? Acceptable thresholds must occur in both before we consider sustainability.

Next, are the economic policy reforms translating into robust and sustainable macroeconomic outcomes? In addition, are trends in the social conditions such that the economic and political reforms are not likely to be thwarted or side-tracked?

Finally, an application of the decision tree methodology in concert with the proposed graduation benchmarks leads to the conclusion that there is likely a handful of current leading contenders for graduation from USAID assistance in CEE. Further elaboration and interpretation of how each country of the region scores overall in this regard is an important objective of the review process, both in-house and outside USAID.

APPENDIX I ECONOMIC & DEMOCRATIC REFORM INDICATORS

A. *Economic Policy Reforms: Indicators & Description of EBRD's Rating Categories*

First Round Reforms:

Small-scale Privatization

- 1 Little progress
- 2 Substantial share privatized
- 3 Nearly comprehensive programme implemented, but design or lack of government supervision leaves important issues unresolved (e.g. lack of tradability of ownership rights)
- 4 Complete privatization of small companies with tradable ownership rights
- 5 Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land

Price Liberalization

- 1 Most prices formally controlled by the government
- 2 Price controls for several important product categories, including key infrastructure products such as utilities and energy; state procurement at non-market prices remains substantial
- 3 Substantial progress on price liberalization including for energy prices; state procurement at non-market prices largely phased out
- 4 Comprehensive price liberalization; utility pricing ensuring cost recovery
- 5 Standards and performance typical of advanced industrial economies: comprehensive price liberalization; efficiency-enhancing regulation of utility pricing

Trade & Foreign Exchange System

- 1 Widespread import and/or export controls or very limited legitimate access to foreign exchange
- 2 Some liberalization of import and/or export controls; almost full current account convertibility in principle but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates)
- 3 Removal of most quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services.
- 4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading

companies; no major non-uniformity of customs duties for non-agricultural goods and services

- 5 Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in GATT/WTO

Second Round Reforms:

Large-scale Privatization

- 1 Little progress
- 2 Comprehensive scheme almost ready for implementation; some sales completed
- 3 More than 25 percent of large-scale state-owned enterprise assets privatized or in the process of being sold, but possibly with major unresolved issues regarding corporate governance
- 4 More than 50 percent of state-owned enterprise assets privatized in a scheme that has generated substantial outsider ownership
- 5 Standards and performance typical of advanced industrial economies: more than 75 percent of enterprise assets in private ownership with effective corporate governance

Enterprise Restructuring

- 1 Soft budget constraints (lax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance
- 2 Moderately tight credit and subsidy policy but weak enforcement of bankruptcy legislation and little action taken to break up dominant firms
- 3 Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (e.g. through privatization combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation)
- 4 Strong financial discipline at the enterprise level; substantial improvement in corporate governance through government restructuring programme or an active corporate control market; significant action to break up dominant firms
- 5 Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring

Third Round Reforms:

Competition Policy

- 1 No competition legislation and institutions; widespread entry restrictions
- 2 Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action on

- dominant firms
- 3 Some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates; substantial reduction of entry restrictions
- 4 Significant enforcement actions to reduce abuse of market power and to promote a competitive environment
- 5 Standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets

Banking Reform

- 1 Little progress beyond establishment of a two-tier system
- 2 Significant liberalization of interest rates and credit allocation; limited use of directed credit or interest rate ceilings
- 3 Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalization with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks
- 4 Significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening
- 5 Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services

Non-Bank Financial Institutional Reform

- 1 Little progress
- 2 Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities
- 3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (e.g. investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework
- 4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalisation; well-functioning non-bank financial institutions and effective regulation
- 5 Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation

Legal Reform for Investment

- 1 Legal rules often very unclear and impose significant constraints to creating investment vehicles, security interests or repatriation of profits; availability of legal advice is limited; judicial and administrative support of the law is substantially deficient
- 2 Legal rules often unclear; legal advice often difficult to obtain; legal rules impose constraints to creating investment vehicles, the taking of security or repatriation of profits; judicial and administrative support of the law is rudimentary; where adequate legal rules or legal advice exist, administration of the law is deficient
- 3 Legal rules do not impose major obstacles to the creation of investment vehicles, the taking of security or the export of profits; legal rules are reasonably clear and specialised legal advice is available; judicial and administrative support of the law is often inadequate; where such support is adequate, legal rules often impose significant constraints
- 4 Legal rules are clear, generally do not discriminate between foreign and domestic investors and impose few constraints; specialised legal advice readily available; investment laws reasonably well administered and supported judicially, although that support is sometimes patchy
- 5 Legal rules closely approximate generally accepted standards internationally and are readily ascertainable through sophisticated legal advice; investment laws are well administered and supported judicially, particularly regarding functioning of courts and land and the orderly and timely registration of proprietary or security interests.

B. Freedom House's Rating Scheme on Economic Policy

In its *Nations in Transit 1997*, Freedom House measures progress towards economic reforms by assessing a series of questions in two broad categories: "privatization" and the "economy". Progress towards each category is rated on a seven-category scale, 1 representing the most advanced and 7 the least advanced, and the two are averaged. To conform with the EBRD scheme, we convert the 1-to-7 scale to 1-to-5, with 5 representing the most advanced.

Privatization

- (1) What percentage of the GDP comes from private ownership?
- (2) What major privatization legislation has been passed?
- (3) What proportion of agriculture, housing and land, industry, and business and services is in private hands?
- (4) Has there been reform of the state sector? (What major legislation has been passed? Do authorities and state managers act within the law? Is the state sector performing more

efficiently? Does it require fewer subsidies than before?)

Economy

(1) Has the taxation system been reformed? (What areas have and have not been overhauled? To what degree are taxpayers complying? Has the level of revenues increased? Is the revenue-collection body overburdened?)

(2) Does macroeconomic policy encourage private savings, investment and earnings? (Has there been any reform/alteration of revenue and budget policies? How have any such changes served to advance economic objectives?)

(3) Are property rights guaranteed? (Are there both formal and de facto protections of private real estate and intellectual property? Is there a land registry with the authority and capability to ensure accurate recording of who owns what? What are the procedures for expropriation, including measures for compensation and challenge?)

(4) Is it possible to own and operate a business? (Has there been legislation regarding the formation, dissolution and transfer of businesses, and is the law respected? Do there exist overly cumbersome bureaucratic hurdles that effectively hinder the ability to own and dispose of a business? Are citizens given access to information on commercial law? Is the law applied fairly?)

(5) Is business competition encouraged? (Are monopolistic practices limited in law and in practice? If so, how? To what degree is "insider" dealing a hindrance to open competition?)

(6) Are foreign investment and international trade encouraged? (To what degree has there been simplification/overhaul of customs and tariff procedures, and are these applied fairly? To what degree is foreign investment encouraged or constrained? Is the country overly trade dependent on one or two other countries?)

(7) Has there been reform of the banking sector? (Is the central bank independent? What are its responsibilities? Is it effective in setting and/or implementing monetary policy? What is the actual state of the private banking sector? Does it conform to international standards? Are depositories protected?)

(8) Is there a functioning capital market infrastructure? (Are there existing or planned commodities, bond and stock markets? What are the mechanisms for investment and lending?)

(9) Has there been reform of the energy sector? (To what degree has the energy sector been restructured? Is the energy sector more varied, and is it open to private competition? Is the country overly dependent on one or two other countries for energy [including whether exported fuels must pass through one or more countries to reach markets]?)

C. *Democratic Freedoms: Elaboration of Freedom House's Rating Scheme of Political Rights and Civil Liberties*

Freedom House annually rates political rights and civil liberties

separately on a seven-category scale, 1 representing the most free and 7 the least free. The 1995-1996 Survey included 191 countries and/or territories. The 1-to-7 rating is derived by country teams awarding from 0 to 4 raw points per checklist item (shown below). The highest possible score for political rights is 32 points, based on up to 4 points for each of eight questions. The highest possible score for civil liberties is 52 points, based on up to 4 points for each of thirteen questions. Under the methodology, raw points correspond to category numbers as follows:

| <u>Political Rights category number</u> | <u>Raw points</u> |
|-----------------------------------------|-------------------|
| 1 | 28-32 |
| 2 | 23-27 |
| 3 | 19-22 |
| 4 | 14-18 |
| 5 | 10-13 |
| 6 | 5-9 |
| 7 | 0-4 |

| <u>Civil Liberties category number</u> | <u>Raw points</u> |
|----------------------------------------|-------------------|
| 1 | 45-52 |
| 2 | 38-44 |
| 3 | 30-37 |
| 4 | 23-29 |
| 5 | 15-22 |
| 6 | 8-14 |
| 7 | 0-7 |

Political Rights checklist

1. Is the head of state and/or head of government or other chief authority elected through free and fair elections?
2. Are the legislative representatives elected through free and fair elections?
3. Are there fair electoral laws, equal campaigning opportunities, fair polling and honest tabulation of ballots?
4. Are the voters able to endow their freely elected representatives with real power?
5. Do the people have the right to organize in different political parties or other competitive political groupings of their choice, and is the system open to the rise and fall of these competing parties or groupings?
6. Is there a significant opposition vote, de facto opposition power, and a realistic possibility for the opposition to increase its support or gain power through elections?
7. Are the people free from domination by the military, foreign

powers, totalitarian parties, religious hierarchies, economic oligarchies or any other powerful group?

8. Do cultural, ethnic, religious and other minority groups have reasonable self-determination, self-government, autonomy or participation through informal consensus in the decision-making process?

Civil Liberties checklist

1. Are there free and independent media, literature and other cultural expressions? (Note: In cases where the media are state-controlled but offer pluralistic points of view, the Survey gives the system credit).

2. Is there open public discussion and free private discussion?

3. Is there freedom of assembly and demonstration?

4. Is there freedom of political or quasi-political organization? (Note: This includes political parties, civic associations, ad hoc groups and so forth.)

5. Are citizens equal under the law, with access to an independent, nondiscriminatory judiciary, and are they respected by the security forces?

6. Is there protection from political terror, and from unjustified imprisonment, exile or torture, whether by groups that support or oppose the system, and freedom from war or insurgency situations? (Note: Freedom from war and insurgency situations enhances the liberties in a free society, but the absence of wars and insurgencies does not in itself make an unfree society free.)

7. Are there free trade unions and peasant organizations or equivalents, and is there effective collective bargaining?

8. Are there free professional and other private organizations?

9. Are there free businesses or cooperatives?

10. Are there free religious institutions and free private and public religious expressions?

11. Are there personal social freedoms, which include such aspects as gender equality, property rights, freedom of movement, choice of residence, and choice of marriage and size of family?

12. Is there equality of opportunity, which includes freedom from exploitation by or dependency on landlords, employers, union leaders, bureaucrats or any other type of denigrating obstacle to a share of legitimate economic gains?

13. Is there freedom from extreme government indifference and corruption?

Political Rights

1 Rating. Generally speaking, places rated 1 come closest to the ideals suggested by the checklist questions, beginning with free and fair elections. Those elected rule. There are competitive

parties or other competitive political groupings, and the opposition has an important role and power. These entities have self-determination or an extremely high degree of autonomy. Usually, those rated 1 have self-determination for minority groups or their participation in government through informal consensus. With the exception of such entities as tiny island countries, these countries and territories have decentralized political power and free sub-national elections.

2 Rating. Such factors as gross political corruption, violence, political discrimination against minorities, and foreign or military influence on politics may be present, and weaken the quality of democracy.

3,4, and 5 Ratings. The same factors that weaken freedom in category 2 may also undermine political rights in categories 3,4, and 5. Other damaging conditions may be at work as well, including civil war, very strong military involvement in politics, lingering royal power, unfair elections and one-party dominance. However, states and territories in these categories may still have some elements of political rights such as the freedom to organize nongovernmental parties and quasi-political groups, reasonably free referenda, or other significant means of popular influence on government.

6 Rating. Typically, such states have systems ruled by military juntas, one-party dictatorships, religious hierarchies and autocrats. These regimes may allow only some minimal manifestation of political rights such as competitive local elections or some degree of representation or autonomy for minorities. Category 6 also contains some countries in the early or aborted stages of democratic transition. A few states in Category 6 are traditional monarchies that mitigate their relative lack of political rights through the use of consultation with their subjects, toleration of political discussion, and acceptance of petitions from the ruled.

7 Rating. This includes places where political rights are absent or virtually nonexistent due to the extremely oppressive nature of the regime or extreme oppression in combination with civil war. A country or territory may also join this category when extreme violence and warlordism dominate the people in the absence of an authoritative, functioning central government.

Civil Liberties

1 Rating. This includes countries and territories that generally have the highest levels of freedoms and opportunities for the individual. Places in this category may still have problems in civil liberties, but they lose partial credit in only a limited

number of areas.

2 Rating. Places in this category, while not as free as those in 1, are still relatively high on the scale. These countries have deficiencies in several aspects of civil liberties, but still receive most available credit.

3, 4, and 5 Ratings. Places in these categories range from ones that receive at least partial credit on virtually all checklist questions to those that have a mixture of good civil liberties scores in some areas and zero or partial credit in others. As one moves down the scale below category 2, the level of oppression increases, especially in the areas of censorship, political terror and the prevention of free association. There are also many cases in which groups opposed to the state carry out political terror that undermines other freedoms. That means that a poor rating for a country is not necessarily a comment on the intentions of the government. The rating may simply reflect the real restrictions on liberty which can be caused by non-governmental terror.

6 Rating. Typically, at category 6 in civil liberties, countries and territories have few partial rights. For example, a country might have some religious freedom, some personal social freedoms, some highly restricted private business activity, and relatively free private discussion. In general, people in these states and territories experience severely restricted expression and association. There are almost always political prisoners and other manifestations of political terror.

7 Rating. At category 7, countries and territories have virtually no freedom. An overwhelming and justified fear of repression characterizes the society.

D. Democratic Freedoms Disaggregated: Elaboration of Freedom House's Rating Scheme in its Nations in Transit 1997

In its *Nations in Transit 1997*, Freedom House measures progress towards democratic freedoms by assessing a series of questions in five categories: (1) political process; (2) civil society; (3) independent media; (4) rule of law; and (5) governance and public administration. Progress towards each category is rated on a seven-category scale, 1 representing the most advanced and 7 the least advanced.

Political process

- (1) When did national legislative elections occur?
- (2) When did presidential elections occur?
- (3) Is the electoral system multiparty-based? Are there at least two viable political parties functioning at all levels of

government?

- (4) How many parties have been legalized?
- (5) What proportion of the population belongs to political parties?
- (6) What has been the trend of voter turnout at the municipal, provincial and national levels in recent years?

Civil Society

- (1) How many nongovernmental organizations have come into existence since 1988? How many charitable/nonprofit organizations?
- (2) What forms of interest group participation in politics are legal?
- (3) Are there free trade unions?
- (4) What is the numerical/proportional membership of farmers' groups, small business associations, etc?

Independent Media

- (1) Are there legal protections for press freedoms?
- (2) Are there legal penalties for libeling officials? Are there legal penalties for "irresponsible" journalism?
- (3) What proportion of the media is privatized?
- (4) Are the private media financially viable?
- (5) Are the media editorially independent?
- (6) Is the distribution system for newspapers privately or governmentally controlled?
- (7) What has been the trend in press freedom?

Rule of Law

- (1) Is there a post-Communist constitution?
- (2) Does the constitutional framework provide for human rights? Do the human rights include business and property rights?
- (3) Has there been basic reform of the criminal code/criminal law?
- (4) Do most judges rule fairly and impartially? How many remain from the Communist era?
- (5) Are the courts free of political control and influence? Are the courts linked directly to the Ministry of Justice or any other executive body?
- (6) What proportion of lawyers is in private practice?
- (7) Does the state provide public defenders?
- (8) Has there been a comprehensive reform of antibias/discrimination laws, including protection of ethnic minorities?

Governance and Public Administration

- (1) Is the legislature the effective rule-making institution?
- (2) Is substantial power decentralized to subnational levels of government?
- (3) Are subnational officials chosen in free and fair elections?
- (4) Do legislative bodies actually function?
- (5) Do the executive and legislative bodies operate openly and

with transparency?

(6) Do municipal governments have sufficient revenues to carry out their duties? Do municipal governments have control of their own local budgets? Do they raise revenues autonomously or from the central state budget?

(7) Do the elected local leaders and local civil servants know how to manage municipal governments effectively?

(8) When did the constitutional/legislative changes on local power come into effect? Has there been a reform of the civil service code/system? Are local civil servants employees of the local or central government?

APPENDIX II THE UNOFFICIAL ECONOMY

This appendix derives in part from the recognition during the inter-agency reviews in January 1997 that the official statistics do not reveal the full picture. This is a very preliminary attempt to address such concerns, and one that needs to be fleshed out further.

We know that the extent of unofficial economic activity in the transition economies is significant as well as the growth of such activity in some cases during the transition. There is no shortage of estimates of the size of the informal economy. The challenge is to arrive at some reasonable estimates that can be credibly compared across countries as well as over time. Kaufmann & Kaliberda (1996) may serve at least as a basis for departure in this regard.¹

As displayed in Table 1, Kaufmann and Kaliberda estimate the unofficial economy for sixteen transition economies. These are the countries for which data are available and reasonably reliable. Baseline 1989 estimates of the share of the unofficial economy were derived from country-specific microestimates available from independent sources.² As a proxy for total economic activity (official and unofficial), aggregate electricity consumption is used. There is empirical basis that overall economic activity and electricity consumption move hand-in-hand with an electricity/GDP elasticity usually close to one.³ A ten percent increase in electricity consumption, for example, would correspond roughly with ten percent growth of GDP.

The difference between the growth in electricity consumption and the change in official GDP estimates is the growth of the unofficial economy. Three different estimates of the size of the unofficial economy, based on different assumptions of the

¹Daniel Kaufmann and Aleksander Kaliberda, "Integrating the Unofficial Economy into the Dynamics of Post-Socialist Economies: A Framework of Analysis and Evidence", pp. 81-120, in *Economic Transition in Russia and the New States of Eurasia* (Bartlomiej Kaminski, ed., Armonk, N.Y.: M.E. Sharpe, 1996).

²Estimates of the size of the unofficial economy in the Soviet Union in 1989 ranged from ten to fifteen percent of official GDP; twelve percent, the midpoint estimate, is hence used as the baseline for countries of the FSU.

³Istvan Dobozi and Gerhard Pohl, "Real Output Decline in Transition Economies--Forget GDP, Try Power Consumption Data," *Transition Newsletter*, World Bank, Vol. 6, January-February 1995.

electricity/GDP elasticity, were calculated to assess how sensitive are results to changes in the method of calculating. The results of Table 1 represent the middle (of the three) estimates. At any rate, the difference in the results from the three scenarios is quite small; on average, the size of the unofficial economies as a percent of GDP varies by three percent.

The findings are striking. First, the unofficial economy is significant in all countries. However, the variation across the countries is also significant. In the NIS, the unofficial economy is almost forty percent of overall economic activity; in the CEE it is closer to twenty percent.

The two regions differ substantially in the growth of the unofficial economy as well. The growth of the unofficial economy in CEE from 1989-1994 has been negligible. In fact, in 1989 the unofficial economy was larger on average in the CEE countries than in the NIS. In contrast, the unofficial economy on average in the NIS has more than tripled from 1989 to 1994.

Several factors seem to play a role in the size and growth of the unofficial economies. Taken together, these factors may go far towards explaining the variations across countries. Specifically, one might expect to find a particularly large unofficial economy where: (1) political liberalization has gone forth (and with it bureaucratic autonomy and discretion in applying regulations); (2) the legal institutional framework is weak (and hence the costs of operating in the unofficial economy low); (3) there has been an absence of economic liberalization and (4) macroeconomic stability (and with it few incentives to operate in the formal economy); (5) high and volatile tax rates exist (which again provide few incentives to go official); and (6) the demand for services and trade is substantial (activities, i.e., that may be more conducive to operating in the unofficial economy than others).

Explicitly bringing unofficial economic activity into the picture also brings to the fore some policy implications. In particular, should unofficial economic activity be discouraged. And if so, how?

On the one hand, such activity has helped cushion the hardships of transition. In fact, those countries which experienced a particularly large decrease in official economic activity, also tended to experience a relatively large increase in unofficial economic activity.

Yet, over the longer term, unofficial economic activity clearly poses a drag to the overall economy. It impedes the ability of the state to govern (by undermining the integrity of the tax system) and to maintain macroeconomic stability. And it

discourages economic growth. The unofficial economy is largely a survival economy focused on the short-term. Enterprise development hinges on access to financial capital, and this can only occur in any substantial way through participation in the official economy.

Finally, if there is validity to the above-mentioned determinants of the unofficial economy, then the importance of moving decisively in economic policy reforms is further underscored, particularly in countries with large unofficial economies. The objective is to bring unofficial economic activity into the official economy. The sooner the economy is liberalized and stabilized, and accompanied by the development of rule of law and the related institutional enforcement mechanisms, the sooner the appropriate incentives are in place for firms and individuals to participate in the official economy.

Appendix II

Table 1. *Share of the Unofficial Economy in CEE & the NIS*¹
(Percent of overall GDP)

| | <u>1989</u> | <u>1994</u> | <u>Difference</u> |
|----------------|-------------|-------------|-------------------|
| Uzbekistan | 12 | 10 | -2 |
| Poland | 15 | 14 | -1 |
| Romania | 22 | 18 | -4 |
| Czech Republic | 5 | 18 | 13 |
| Belarus | 12 | 19 | 7 |
| Estonia | 12 | 25 | 13 |
| Hungary | 26 | 27 | 1 |
| Lithuania | 12 | 28 | 16 |
| Bulgaria | 23 | 28 | 5 |
| Kazakstan | 12 | 34 | 22 |
| Latvia | 12 | 34 | 22 |
| Moldova | 12 | 40 | 28 |
| Russia | 12 | 41 | 29 |
| Ukraine | 12 | 46 | 34 |
| Azerbaijan | 12 | 58 | 46 |
| Georgia | 12 | 65 | 53 |
| <hr/> | | | |
| CEE & NIS | 13 | 34 | 20 |
| CEE | 17 | 19 | 2 |
| NIS | 12 | 38 | 26 |

¹Kaufmann and Kaliberda, "Integrating the Unofficial Economy into the Dynamics of Post-Socialist Economies: A Framework of Analysis and Evidence," pp. 81-120, in *Economic Transition in Russia and the New States of Eurasia* (Bartlomiej Kaminski, ed., Armonk, N.Y.: M.E. Sharpe, 1996).

APPENDIX III COMPARATORS

Introduction

This appendix provides further basis of comparison of country performance in the region vis-a-vis countries outside ENI.¹ It includes indicators in economic performance, democratization, and social conditions, and excludes a comparison of economic policy reforms since those data are available for the ENI region only. Also, fewer economic performance and social indicators are used in this analysis than is used in the body of the report since some such indicators are not available for the comparators.

Fifteen comparators across the income per capita spectrum are highlighted. To facilitate comparisons, the raw data are rated on a one-to-five scale, with five representing best performance. The particular scales are specified in the endnotes.

Salient Findings

The comparisons confirm the very wide range in performance across the transition economies, and the large CEE-NIS progress gap (*Summary Tables 1 & 2*). In particular, some CEE countries (the Czech Republic, Poland, and Slovenia, in particular) score an overall rating comparable to some industrial market economies.² In contrast, the poorest performers, all in the NIS, score below overall performance standards of the comparators of all income levels. Overall economic, political, and social conditions in Zambia, Ghana, Turkey, and Vietnam rank at the bottom of the comparators assessed. Yet, by these standards, six NIS (Tajikistan, Azerbaijan, Georgia, Kazakstan, Turkmenistan, and the Kyrgyz Republic) rank lower still.

In addition, as one would expect, the high-income comparators generally earn the highest scores among all the countries in the sample in democratization and social conditions. However, the best economic performers are found among the middle-income comparators (S. Korea, Thailand, and Chile) and one low-income

¹The data and analysis in this appendix are drawn from *Monitoring Country Progress in CEE & NIS* (January 1997).

²Overall ratings of the industrial market economies would be higher if the economic policy indicators were brought into the picture since, by EBRD definition of such indicators, a "5" is considered policy adherence comparable to that of the industrial market economies. Still, the basic thrust needs to be that some of the CEE countries are doing very well in these relative terms.

comparator (China), and three countries in CEE (the Czech Republic, the Slovak Republic, and Croatia). Economic performance in these three CEE countries is comparable by these standards to that in Thailand and Chile.

Finally, it is interesting to note that the extent of democratic freedoms varies widely among this group of high economic performers (Figure 1). China is the extreme outlier in this regard, mixing the best economic performance in the sample with as few democratic freedoms as anywhere in the world.

Appendix III.

Summary Table 1. ENI Country Rating¹

| | <u>Economic Performance</u> | <u>Democratization</u> | <u>Social Conditions</u> | <u>Average</u> |
|--------------|---------------------------------|------------------------|------------------------------|----------------|
| Czech Rep. | 4.1 | 4.6 | 4.0 | 4.2 |
| Poland | 3.9 | 4.6 | 4.0 | 4.2 |
| Slovenia | 3.9 | 4.6 | (4.2) | 4.2 |
| Slovak Rep. | 4.1 | 3.9 | 4.1 | 4.0 |
| Estonia | 3.9 | 4.2 | 3.6 | 3.9 |
| Hungary | 3.3 | 4.6 | 3.6 | 3.8 |
| Bulgaria | 3.3 | 4.2 | 3.6 | 3.7 |
| Latvia | 3.3 | 4.2 | 3.4 | 3.6 |
| Lithuania | 3.3 | 4.6 | 3.0 | 3.6 |
| Romania | 3.6 | 3.2 | 3.4 | 3.4 |
| Croatia | (4.0) | 2.8 | (3.1) | 3.3 |
| Macedonia | 3.0 | 3.2 | (3.5) | 3.2 |
| Albania | 3.3 | 3.2 | (2.7) | 3.1 |
| Russia | 2.9 | 3.2 | 2.8 | 3.0 |
| Belarus | 3.3 | 2.1 | 3.5 | 3.0 |
| Moldova | 2.9 | 2.8 | 3.0 | 2.9 |
| Armenia | 2.5 | 2.8 | (3.1) | 2.8 |
| Ukraine | 1.8 | 3.2 | 3.0 | 2.7 |
| Uzbekistan | 3.5 | 1.0 | (3.0) | 2.5 |
| Kyrgyz Rep. | (1.9) | 2.8 | (2.5) | 2.4 |
| Turkmenistan | (3.0) | 1.0 | 3.1 | 2.4 |
| Kazakstan | 2.5 | 1.8 | 2.7 | 2.3 |
| Georgia | (1.9) | 2.5 | (2.5) | 2.3 |
| Azerbaijan | 2.3 | 1.4 | (2.7) | 2.1 |
| Tajikistan | 1.6 | 1.0 | (2.1) | 1.6 |
| <hr/> | | | | |
| CEE & NIS | 3.0 | 3.1 | 3.1 | 3.1 |
| CEE | 3.7 | 4.1 | 3.7 | 3.8 |
| NIS | 2.7 | 2.7 | 2.9 | 2.8 |

¹On a 1-5 scale with 5 representing the best performance. Elaboration of the ratings is provided in the endnotes of this appendix. The indicators used coincide with those which are available and used for the comparators below. Note the economic policy reform indicators are not included. Parentheses signify that at least one indicator is not included in the average calculation.

Appendix III.

Summary Table 2. Country Rating of Comparators¹

| | <u>Economic Performance</u> | <u>Democratization</u> | <u>Social Conditions</u> | <u>Average</u> |
|-----------|---------------------------------|------------------------|------------------------------|----------------|
| CEE & NIS | 3.0 | 3.1 | 3.1 | 3.1 |
| CEE | 3.7 | 4.1 | 3.7 | 3.8 |
| NIS | 2.7 | 2.7 | 2.9 | 2.8 |

Comparators:Low-income

| | | | | |
|----------|-------|-----|-------|-----|
| Vietnam | (3.8) | 1.0 | (3.3) | 2.7 |
| Zambia | (2.6) | 3.2 | 1.7 | 2.5 |
| Ghana | 2.8 | 2.8 | 2.3 | 2.6 |
| China | 4.5 | 1.0 | 3.0 | 2.8 |
| Honduras | 3.1 | 3.5 | 2.5 | 3.0 |

Middle-
income

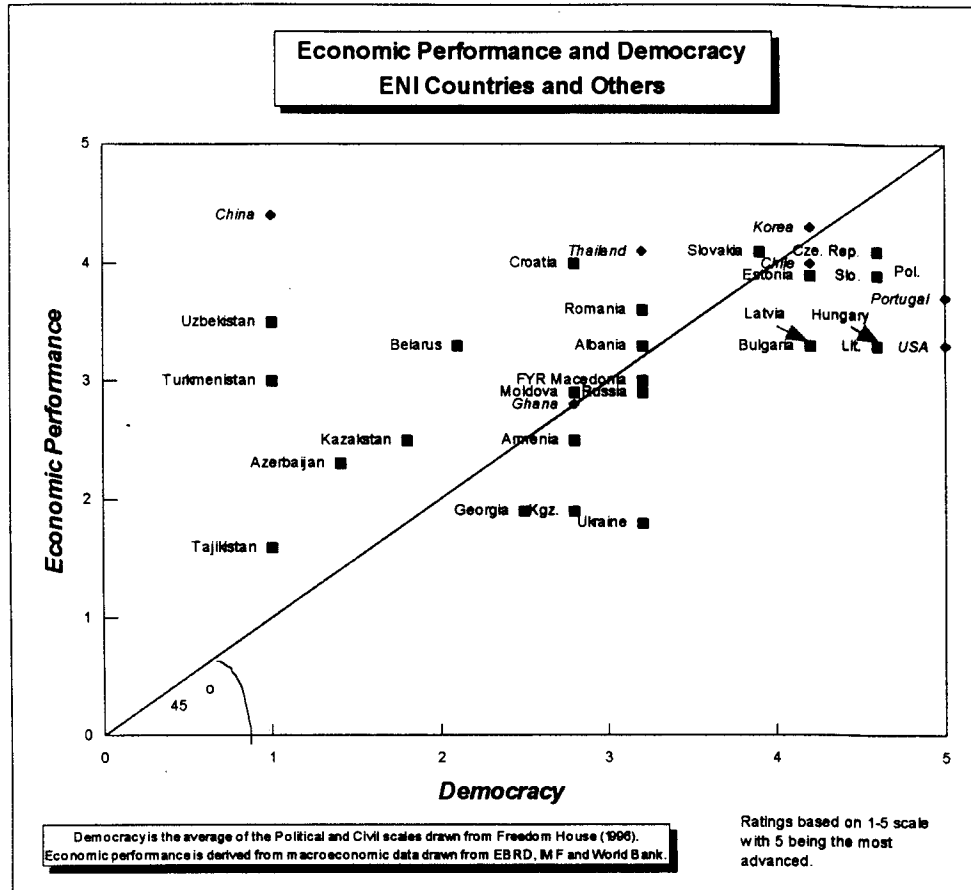
| | | | | |
|----------|-------|-----|-------|-----|
| Thailand | 4.1 | 3.2 | 3.2 | 3.5 |
| Turkey | 3.0 | 2.1 | (2.9) | 2.7 |
| Chile | 4.0 | 4.2 | 3.8 | 4.0 |
| Greece | (3.1) | 4.3 | (4.6) | 4.0 |
| Korea | 4.3 | 4.2 | (4.3) | 4.3 |

High-income

| | | | | |
|----------|-------|-----|-------|-----|
| Portugal | (3.7) | 5.0 | (4.8) | 4.5 |
| Finland | (3.1) | 5.0 | 4.5 | 4.2 |
| Austria | (3.3) | 5.0 | (4.8) | 4.4 |
| Germany | (3.3) | 4.6 | 4.7 | 4.2 |
| U.S. | (3.3) | 5.0 | 4.5 | 4.3 |

¹On a 1-5 scale with 5 representing the best performance. Elaboration of the indicators used is provided in the tables below. Parentheses signify that at least one indicator is not included in the average calculation.

Appendix II
Figure 1



Economic Performance Indicators¹

| | 1994-96 GDP Growth | | 1995-96 Inflation | | GDI as % of GDP | | FDI as % of GDP | |
|-----------|-----------------------|---------------------|----------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
| | (%) | Rating ² | (%) | Rating ³ | (%) | Rating ⁴ | (%) | Rating ⁵ |
| CEE & NIS | -4.6 | 2 | 83.5 | 3 | 21.7 | 4 | 3.3 | 2 |
| CEE | 4.2 | 4 | 28.9 | 3 | 20.6 | 4 | 8.5 | 3 |
| NIS | -8.1 | 2 | 105.4 | 2 | 22.1 | 4 | 1.2 | 1 |

Comparators:

Low-income

| | | | | | | | | |
|----------|------|---|------|---|----|---|------|---|
| Vietnam | 9.1 | 5 | 13.1 | 4 | 24 | 4 | 2.0 | 2 |
| Zambia | -2.6 | 2 | 30.0 | 3 | 7 | 1 | 13.5 | 4 |
| Ghana | 4.2 | 4 | 58.1 | 3 | 16 | 3 | 1.3 | 1 |
| China | 11.0 | 5 | 14.8 | 4 | 42 | 5 | 30.0 | 5 |
| Honduras | 1.5 | 3 | 18.5 | 4 | 26 | 5 | 6.8 | 3 |

Middle-income

| | | | | | | | | |
|----------|-----|---|------|---|----|---|-----|---|
| Thailand | 8.6 | 5 | 5.8 | 5 | 40 | 5 | 7.5 | 3 |
| Turkey | 1.4 | 3 | 93.6 | 3 | 22 | 4 | 2.2 | 2 |
| Chile | 6.4 | 5 | 8.2 | 5 | 27 | 5 | 8.8 | 3 |
| Greece | 1.8 | 3 | 9.0 | 5 | 18 | 3 | 8.1 | 3 |
| Korea | 8.7 | 5 | 4.5 | 5 | 38 | 5 | 1.8 | 1 |

High-income

| | | | | | | | | |
|----------|-----|---|-----|---|----|---|------|---|
| Portugal | 1.7 | 3 | 3.8 | 5 | 26 | 5 | 10.8 | 4 |
| Finland | 4.3 | 4 | 3.7 | 5 | 14 | 2 | 4.8 | 2 |
| Austria | 2.5 | 4 | 2.1 | 5 | 25 | 4 | 3.1 | 2 |
| Germany | 2.4 | 4 | 1.8 | 5 | 22 | 4 | 1.4 | 1 |
| U.S. | 2.7 | 4 | 2.8 | 5 | 16 | 3 | 4.8 | 2 |

Economic Performance (cont'd)

| | Export Growth | | Fiscal Balance (% of GDP) | | Debt Service (% of Exports) | | Current AcctBal. (% of GDP) | |
|-----------|------------------|---------------------|---------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|
| | (%) | Rating ⁶ | (%) | Rating ⁷ | (%) | Rating ⁸ | (%) | Rating ⁹ |
| CEE & NIS | 7.4 | 4 | -4.7 | 3 | 16.0 | 3 | -2.6 | 3 |
| CEE | 16.8 | 5 | -2.8 | 3 | 12.4 | 3 | -2.1 | 3 |
| NIS | 3.6 | 3 | -5.4 | 2 | 17.5 | 3 | -2.9 | 3 |

Comparators:

Low-income

| | | | | | | | | |
|----------|------|----|------|----|------|---|------|----|
| Vietnam | -- | -- | -- | -- | 6.1 | 4 | -- | -- |
| Zambia | 13.7 | 5 | -7.3 | 2 | 31.5 | 1 | -- | -- |
| Ghana | 7.5 | 4 | -2.5 | 3 | 24.8 | 2 | -9.0 | 2 |
| China | 16.0 | 5 | -2.1 | 3 | 9.3 | 4 | 1.4 | 5 |
| Honduras | 1.4 | 2 | 3.1 | 5 | 33.9 | 1 | -9.7 | 2 |

Middle-
income

| | | | | | | | | |
|----------|------|---|-------|---|------|----|------|---|
| Thailand | 14.6 | 5 | 1.9 | 5 | 16.3 | 3 | -5.9 | 2 |
| Turkey | 7.7 | 4 | -4.0 | 2 | 33.4 | 1 | 1.7 | 5 |
| Chile | 9.0 | 4 | 1.7 | 5 | 20.3 | 2 | -2.4 | 3 |
| Greece | 10.4 | 5 | -15.6 | 1 | -- | -- | -6.3 | 2 |
| Korea | 10.6 | 5 | 0.3 | 5 | 7.0 | 4 | -1.1 | 4 |

High-income

| | | | | | | | | |
|----------|------|---|-------|---|----|----|------|---|
| Portugal | 1.0 | 2 | -2.2 | 3 | -- | -- | -1.9 | 4 |
| Finland | 6.6 | 3 | -14.1 | 1 | -- | -- | 1.0 | 5 |
| Austria | 2.6 | 2 | -5.1 | 2 | -- | -- | -0.8 | 4 |
| Germany | -3.0 | 1 | -2.5 | 3 | -- | -- | 0.3 | 5 |
| U.S. | 6.7 | 3 | -3.0 | 3 | -- | -- | -2.1 | 3 |

Democratization¹⁰

| | Political Rights | Civil Liberties | Average |
|-----------|---------------------|--------------------|---------|
| CEE & NIS | 3.2 | 3.0 | 3.1 |
| CEE | 4.2 | 4.0 | 4.1 |
| NIS | 2.8 | 2.5 | 2.7 |

*Comparators:*Low-income

| | | | |
|----------|-----|-----|-----|
| Vietnam | 1.0 | 1.0 | 1.0 |
| Zambia | 3.5 | 2.8 | 3.2 |
| Ghana | 2.8 | 2.8 | 2.8 |
| China | 1.0 | 1.0 | 1.0 |
| Honduras | 3.5 | 3.5 | 3.5 |

Middle-
income

| | | | |
|----------|-----|-----|-----|
| Thailand | 3.5 | 2.8 | 3.2 |
| Turkey | 2.1 | 2.1 | 2.1 |
| Chile | 4.2 | 4.2 | 4.2 |
| Greece | 5.0 | 3.5 | 4.3 |
| S.Korea | 4.2 | 4.2 | 4.2 |

High-income

| | | | |
|----------|-----|-----|-----|
| Portugal | 5.0 | 5.0 | 5.0 |
| Finland | 5.0 | 5.0 | 5.0 |
| Austria | 5.0 | 5.0 | 5.0 |
| Germany | 5.0 | 4.2 | 4.6 |
| U.S. | 5.0 | 5.0 | 5.0 |

Social Conditions

| | Per Capita Income | | Current GDP to 1989 GDP | | Income Distribution | |
|-----------|----------------------|----------------------------|----------------------------|----------------------------|----------------------------------|----------------------------|
| | <u>Int'l \$</u> | <u>Rating¹¹</u> | <u>(%)</u> | <u>Rating¹²</u> | <u>Top 20% to Bottom 20%</u> | <u>Rating¹³</u> |
| CEE & NIS | 4,010 | 2 | 62 | 2 | 8.6 | 3 |
| CEE | 5,780 | 3 | 88 | 3 | 3.9 | 5 |
| NIS | 3,330 | 2 | 52 | 2 | 10.7 | 2 |

Comparators:

Low-income

| | | | | | | |
|----------|-------|----|-----|---|------|---|
| Vietnam | -- | -- | 155 | 5 | 5.6 | 4 |
| Zambia | 860 | 1 | 98 | 3 | 12.9 | 2 |
| Ghana | 2,050 | 1 | 129 | 4 | 5.3 | 4 |
| China | 2,500 | 1 | 178 | 5 | 7.1 | 3 |
| Honduras | 1,940 | 1 | 125 | 4 | 15.1 | 1 |

Middle-
income

| | | | | | | |
|----------|--------|---|-----|---|------|----|
| Thailand | 6,970 | 3 | 160 | 5 | 9.4 | 3 |
| Turkey | 4,710 | 2 | 117 | 4 | -- | -- |
| Chile | 8,890 | 4 | 151 | 5 | 17.4 | 1 |
| Greece | 10,930 | 4 | 109 | 4 | -- | -- |
| Korea | 10,330 | 4 | 147 | 4 | -- | -- |

High-income

| | | | | | | |
|----------|--------|---|-----|---|-----|----|
| Portugal | 11,970 | 5 | 105 | 4 | -- | -- |
| Finland | 16,150 | 5 | 88 | 3 | 6.0 | 4 |
| Austria | 19,560 | 5 | 110 | 4 | -- | -- |
| Germany | 19,480 | 5 | 107 | 4 | 5.8 | 4 |
| U.S. | 25,880 | 5 | 116 | 4 | 8.9 | 3 |

Social Conditions (cont'd)

| | Enrollment Ratio ¹⁴ | | Infant Mortality | | Life Expectancy | |
|-----------|-----------------------------------|----------------------|---------------------|----------------------|--------------------|----------------------|
| | (%) | Rating ¹⁵ | (Deaths) | Rating ¹⁶ | (Years) | Rating ¹⁷ |
| CEE & NIS | 75 | 4 | 18.9 | 3.9 | 67.6 | 2.9 |
| CEE | 70 | 4 | 16.0 | 4.2 | 71.2 | 3.9 |
| NIS | 76 | 4 | 20.1 | 3.9 | 66.2 | 2.4 |

*Comparators:*Low-income

| | | | | | | |
|----------|----|---|-----|-----|----|-----|
| Vietnam | 51 | 2 | 42 | 2.0 | 68 | 3.4 |
| Zambia | 49 | 1 | 108 | 1.6 | 47 | 1.4 |
| Ghana | 45 | 1 | 74 | 1.8 | 58 | 1.8 |
| China | 57 | 2 | 30 | 3.4 | 69 | 3.4 |
| Honduras | 61 | 3 | 47 | 2.6 | 66 | 3.4 |

Middle-
income

| | | | | | | |
|----------|----|---|----|-----|----|-----|
| Thailand | 54 | 2 | 36 | 2.5 | 69 | 3.4 |
| Turkey | 62 | 3 | 62 | 2.0 | 67 | 3.4 |
| Chile | 71 | 4 | 12 | 4.3 | 72 | 4.2 |
| Greece | 78 | 5 | 8 | 5.0 | 78 | 5.0 |
| Korea | 81 | 5 | 12 | 4.3 | 71 | 4.2 |

High-income

| | | | | | | |
|----------|----|---|---|-----|----|-----|
| Portugal | 79 | 5 | 8 | 5.0 | 75 | 5.0 |
| Finland | 96 | 5 | 5 | 5.0 | 76 | 5.0 |
| Austria | 85 | 5 | 6 | 5.0 | 77 | 5.0 |
| Germany | 79 | 5 | 6 | 5.0 | 76 | 5.0 |
| U.S. | 96 | 5 | 8 | 5.0 | 77 | 5.0 |

1. The ENI regional figures are drawn from the tables in the text; the indicator definitions and sources are the same. The time series for the comparator indicators roughly coincide with the years used to calculate the figures for the transition economies. Latest year available applies to those indicators for which no year is specified.

The primary sources for the comparator data are the appropriate years of the World Bank's: (a) *World Development Report*, (b) *Country Briefs*, (c) *World Tables*, (d) *Atlas*; the IMF's: (a) *World Economic Outlook*, (b) *International Financial Statistics*; Freedom House, *Freedom in the World*; and the UNDP, *Human Development Report*.

2. On a 1-5 scale, 5 is greater than 5%; 4 is 2.1-5%; 3 is 0.1-2%; 2 is -10-0%; and 1 is less than -10%.

3. On a 1-5 scale, 5 is less than 10%; 4 is 10-24%; 3 is 25-99%; 2 is 100-199%; and 1 is 200% or greater.

4. On a 1-5 scale, 5 is greater than 25%; 4 is 20-25%; 3 is 15-19%; 2 is 10-14%; and 1 is less than 10%.

5. On a 1-5 scale, 5 is greater than 20%; 4 is 11-20%; 3 is 5-10%; 2 is 2-4%; and 1 is less than 2%.

6. On a 1-5 scale, 5 is greater than 10%; 4 is 7-10%; 3 is 3-6.9%; 2 is 0-2.9%; and 1 is less than 0%.

7. On a scale of 1-5, 5 is a surplus balance; 4 is -2.0% to 0%; 3 is -5.0% to -2.1%; 2 is -10.0% to -5.1%; and 1 is a deficit balance greater than -10.0%.

8. On a 1-5 scale, 5 is less than 5%; 4 is 10-5%; 3 is 20-10.1%; 2 is 30-20.1%; and 1 is greater than 30%.

9. On a 1-5 scale, 5 is a surplus balance; 4 is -2.0% to 0%; 3 is -5% to -2.1%; 2 is -10% to -5.1%; and 1 is a deficit balance greater than -10%.

10. Freedom House's 1-7 ratings were compressed to a 1-5 scale with 5 representing the most free.

11. On a 1-5 scale, 5 is greater than \$11,000; 4 is \$7,000-\$11,000; 3 is \$5,000-\$6,990; 2 is \$2,500-\$4,990; and 1 is less than \$2,500.

12. On a 1-5 scale, 5 is greater than 150%; 4 is 100-150%; 3 is 70-99%; 2 is 50-69%; and 1 is less than 50%.

13. On a 1-5 scale, 5 is less than 5.0; 4 is 5.0-7.0; 3 is 7.1-10.0; 2 is 10.1-15.0; and 1 is greater than 15.0.

14. The ratio is the combined first, second, and third level enrollment.

15. On a 1-5 scale, 5 is 78-100%; 4 is 70-77%; 3 is 60-69%; 2 is 50-59%; and 1 is less than 50%.

16. This is a composite rating which averages the 1994 infant mortality rate (weighted 80%) and its change since 1991 (weighted 20%). For 1994 infant mortality rate, 5 is less than 10 deaths per 1,000 births; 4 is 10-25; 3 is 26-40; 2 is 41-70; 1 is greater than 70. For the change since 1991, 5 is a decrease or no change; 4 is an increase of 0.1%-5%; 3 is an increase of 6%-10%; 2 is an increase of 11%-20%; and 1 is an increase greater than 20%.

17. This is a composite rating which averages the 1994 life expectancy (weighted 80%) and its change since 1991 (weighted 20%). For 1994 life expectancy, 5 is greater than 74 years; 4 is 70-74; 3 is 66-69; 2 is 60-65; and 1 is less than 60. For the change since 1991, 5 represents no change or an increase; 4 is a decrease of 1% or less; 3 is a decrease from 1.1% to 2%; 2 is a decrease from 2.1% to 3%; and 1 is a decrease greater than 3%.